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dedicated to sustainable seafood excellence

2003 Annual Report to Unitholders



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## dedicated to sustainable seafood excellence

Sustainability is near to the hearts of everyone at Clearwater. From the outset we have understood the importance of managing for the long term by investing in science and technology to help preserve and grow the seafood resource. This commitment has helped us to become a leader and remain at the forefront of the North American seafood industry for nearly three decades. As an income trust, sustainability takes on a broader meaning, but this same spirit guides us. We are dedicated to ensuring stable cash flow and distributions to unitholders. Clearwater's commitment to sustainability encompasses the resource, our unitholders, our customers and our employees.



# Financial highlights

BELOW ARE THE FINANCIAL HIGHLIGHTS OF CLEARWATER SEAFOODS LIMITED PARTNERSHIP,  
SEE PAGE 55 FOR FURTHER DETAILS

(IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT AMOUNTS)

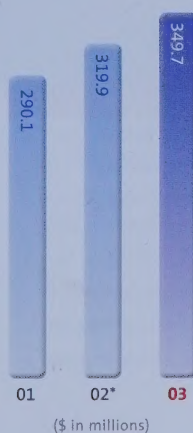
	2003	2002*
Sales	\$ 349,737	\$ 319,928
Net earnings	\$ 62,117	\$ 29,533
Earnings per unit	1.22	N/A

	2003	Five Month Period Ended December 31, 2002
Distributable cash	\$ 61,510	\$ 31,125
Distributions declared	\$ 58,502	\$ 22,476
Distributable cash per unit	1.21	0.67
Distributions declared per unit	1.15	0.48
Payout ratio	95%	72%

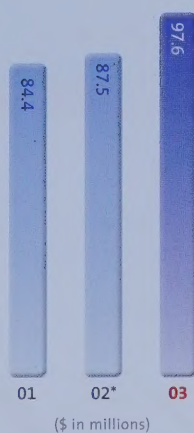
## Growth initiatives – 2003

- Acquired and successfully integrated sea scallop and certain groundfish quotas from High Liner Foods Incorporated. Built new scallop factory freezer vessels, resulting in higher selling prices, better catch rates and lower costs.
- Increased ownership of Argentine subsidiary Glaciar Pesquera S.A. by 10% to 80%, enhancing Clearwater's position as one of only two licence holders in the Argentine scallop fishery.
- Committed to investing \$50 million over two years for construction of a factory freezer clam vessel to increase catching capacity and volumes processed, and reduce harvesting costs and increase yields.

Sales



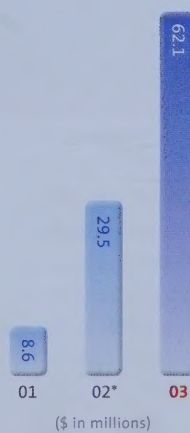
Gross Profit



Gross Profit Percentage



Net Earnings









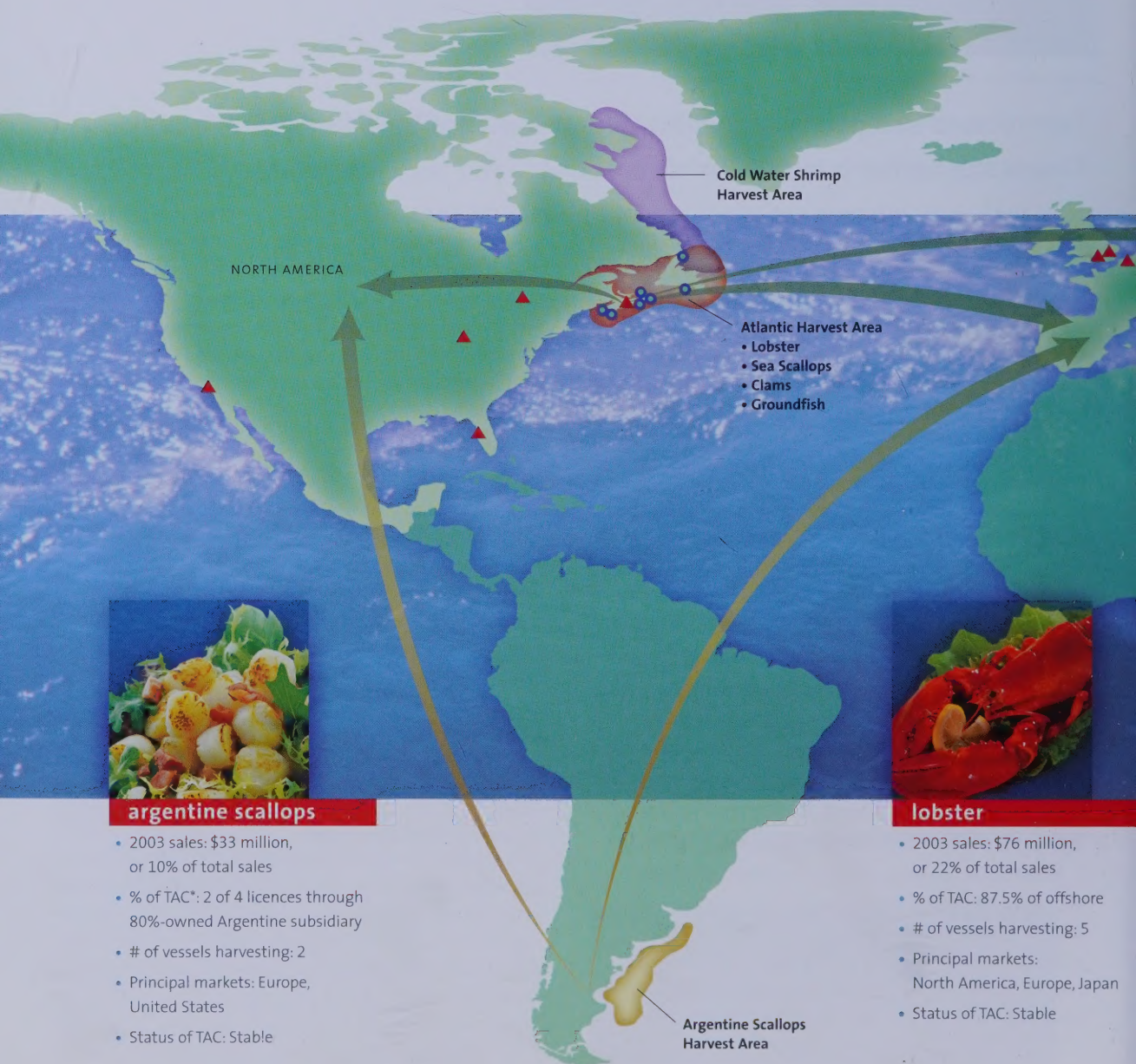
\* Combined pro-forma unaudited

# Clearwater Seafoods

Clearwater is a leader in the global seafood industry and the largest integrated shellfish company in North America. It is recognized for its consistent quality, wide diversity, and reliable delivery of premium seafood including sea scallops, clams, Argentine scallops, lobster, cold water shrimp, groundfish and crab.

## Legend

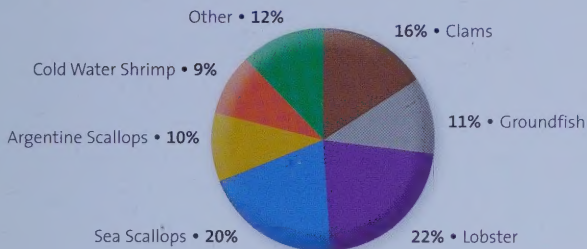
-  Atlantic Harvest Area
-  Cold Water Shrimp Harvest Area
-  Argentine Scallops Harvest Area
-  From Harvest and/or Processing to Market
-  Distribution & Sales Offices
-  Processing Plants



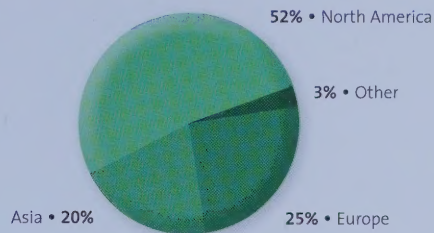
\* TAC is Total Allowable Catch, as determined on an annual basis



## Diversity of Species – 2003 Sales by Species



## A Global Company – 2003 Sales by Region



### sea scallops

- 2003 sales: \$68 million, or 20% of total sales
- % of TAC: 50%
- # of vessels harvesting: varies, average of 7
- Principal markets: North America, Europe
- Status of TAC: Modest decline to historic ranges

### clams

- 2003 sales: \$57 million, or 16% of total sales
- % of TAC: 100%
- # of vessels harvesting: 3
- Principal markets: Japan, China, North America
- Status of TAC: Stable

### cold water shrimp

- 2003 sales: \$31 million, or 9% of total sales
- % of TAC: 21%
- # of vessels harvesting: 2
- Principal markets: Asia, Europe, United States
- Status of TAC: Increasing

### groundfish

- 2003 sales: \$37 million, or 11% of total sales
- % of TAC: Pollock: 28%, Redfish: 15%, Flounder: 14%, Haddock: 7%, Cod: 2%
- # of vessels harvesting: Varies
- Principal markets: United States
- Status of TAC: Stable to growing



*Purdy Crawford, Chairman, Clearwater Seafoods Income Fund*

## Message from the Chairman

### I am pleased to report to our unitholders on behalf of the Board of Trustees of Clearwater Seafoods Income Fund.

My association with Clearwater, and the commercial fishing business for that matter, began during the Fund's initial public offering. I have to admit that prior to becoming involved with the Company in 2002, my knowledge of the fishing industry was limited to digging clams as a young teenager in the mudflats of the Bay of Fundy to earn a few extra dollars.

Times have changed drastically since then, and I have come to realize just how advanced the fishing business has become. Long gone are the days when captain and crew were at sea for much of the year subjected to the elements and hours of back breaking labour for an uncertain catch. For Clearwater's captains of today, notebook computers have replaced logbooks, and initiatives ranging from mapping the ocean bottom to using satellites to track vessels and monitor information on the catch have eliminated much of the guesswork.

Clearwater has taken what was the low-tech pursuit of fishing and turned it into a highly sophisticated, technology driven, customer oriented international business. It is this innovative spirit that has made Clearwater the largest shellfish company in North America, harvesting, processing and selling more than 80 million pounds of seafood annually to customers around the globe.

In addition to the scale and scope of the operation, what sets Clearwater apart is its leadership in managing the seafood resource. Sustainability is the common thread that runs through everything Clearwater does. The Company takes an active role alongside government to develop and maintain well-managed fisheries to ensure long-term viability of the resource.

I am pleased to say that management has proven to be just as diligent when it comes to operating and overseeing a publicly traded income trust. I am impressed with how John, Colin and the team that works with them have taken the stewardship of the income trust to heart, exercising the same care and dedication that they bring to bear on every other aspect of their business.

Management has shown its commitment to the principles of good governance, prudent management of assets and creating value for unitholders. In short, its commitment is to creating a sustainable and growing company. I can safely say that all the Trustees are proud to be associated with Clearwater and look forward to being a part of its continued success.

Sincerely,

A handwritten signature in dark ink that reads "Purdy Crawford". The signature is written in a cursive, flowing style.

**Purdy Crawford**

Chairman

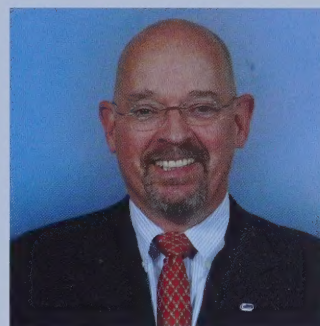
Clearwater Seafoods Income Fund



## Letter to Unitholders



John Risley, Chairman, CS ManPar Inc.



Colin MacDonald, Chief Executive Officer, CS ManPar Inc.

The theme of our 2003 Annual Report is “Dedicated to Sustainable Seafood Excellence.” This statement does more than sum up the past year however, it has been the mantra of the Company and its employees for three decades. It is why Clearwater Seafoods Limited Partnership (“Clearwater”) has grown to be a leader in the global seafood industry and why we are confident in our future.

### Fellow Unitholders:

Sustainability is one of the keys to our success. As a business, this means investing in the people, technology, resource ownership and resource management practices to capitalize on the growing international demand for premium seafood. As an income trust, this means ensuring sustainable cash flow and delivering stable distributions to our unitholders while continuing to keep the business on a sound financial footing.

This is the commitment we made during our initial public offering in 2002, and in 2003 we again delivered. Sales grew by 9% year-over-year, with gross profit margins remaining stable at 27.9%. Clearwater generated \$61.5 million of distributable cash and declared distributions of \$58.5 million for a payout ratio of 95%. In the 17 months following the IPO, Clearwater generated \$92.6 million of distributable cash and has declared distributions of \$81.0 million for a payout ratio of 87%.

By achieving our distributable cash forecast and meeting other related tests established at the time of the IPO, subordination was removed at December 31, 2003 on 60% of the Clearwater's Class B Partnership Units. The remaining 9.4 million Class B Partnership Units will remain subordinated until December 31, 2005. Based on distributions of \$1.15 per unit, approximately \$10.8 million of distributions will be subordinated on an annual basis, providing an additional measure of confidence for our unitholders.

### A Strategy for Sustainability

At Clearwater, we take our responsibility to unitholders, customers and employees very seriously. We are confident in the ability of the Clearwater team to deliver on our promise of performance. Our strategy to do so rests on three key pillars:

- **Innovation** – being a leader in developing and adopting the technologies and practices that enhance top and bottom line growth while ensuring the sustainability of our resource base, in summary getting more from less;
- **Vertical integration** – by controlling the process from harvesting to processing and from marketing to delivery, we ensure quality and unsurpassed cost efficiencies for our customers; and,
- **Diversity of species and markets** – maintaining a broad range of products and a global customer base provides Clearwater with a natural hedge against a downturn in any single species or geographic region.

#### The key attributes of our strategy are:

- Resource ownership and management;
- Creating strong customer relationships; and,
- Skilled and dedicated employees.



## Our creed:

### Leading sustainable harvesting and resource management

We will invest in science and technology to better understand the resources we harvest. We will partner with government and industry groups to ensure harvesting practices are sustainable, and seek new methods of resource management to secure the future.

### Developing our people

We will empower our people to make decisions and put forward new ideas. We will invest in our employees and ensure they are highly trained and motivated and we will provide them with a safe, engaging and challenging work environment.

### Creating value for our customers

We will present greater value to our customers by creating mutually profitable partnerships through offering a consistent supply of high quality seafood and educating our customers on the world's best seafood.

### Embracing a culture of innovation

We will apply innovative thinking and utilize technology to maximize both yield and product value.

### Encouraging the entrepreneurial spirit

We will foster the entrepreneurial spirit upon which the Company was built. We will operate in a decentralized environment, supported by open, respectful and highly communicative teamwork complemented by a deep sense of integrity and personal accountability.

### Continuing to seek opportunities for growth and global development

We will maintain our global outlook to penetrate new markets, develop new businesses, build stronger customer relationships and expand our line of species.



### Resource Ownership and Management

Quota ownership is the cornerstone of our business. We currently own between 50% and 100% of the Total Allowable Catch (TAC) for sea scallops, offshore lobster, coldwater shrimp, arctic surf

clams, Jonah crab, and Argentine scallops. Owning quota of this scope in a number of fisheries allows us to control our destiny regarding access to the resource, thereby ensuring consistent supply to our customers.

To maintain our strong position in Atlantic Canada's premium shellfish industry, we acquired certain scallop quotas from High Liner Foods Inc. during the second quarter. This strategic move increased our share of the Canadian sea scallop TAC from 36% to 50%, and the successful integration of this quota led to increased sales volumes and harvesting efficiencies in the third and fourth quarters of 2003. We expect this acquisition will continue to be accretive to distributable cash per unit going forward.

Also in the second quarter, we announced that Clearwater was granted a quota to harvest quahog clams. Quahogs are an extremely popular product in the U.S. market where they are used extensively in the production of clam chowder, the biggest selling soup category in the United States. Throughout the balance of 2003 we delineated this resource, and expect to begin capitalizing on this new opportunity over the next several years.

Sustainability of our seafood resource is vital. Clearwater has always been proactive in protecting its investment in quota, and we have assumed a leading role in building sustainable resource management systems in each of our fisheries in cooperation with the Canadian Department of Fisheries and Oceans (DFO) and the Argentine equivalent, INIDEP. Our efforts have led to resources in the key fisheries remaining healthy, with a generally stable to increasing total allowable catch or TAC.



### Strong Customer Relationships

Successful businesses all share a commitment to their customers' success. As a global company, Clearwater seeks out customers in globally diverse markets to which

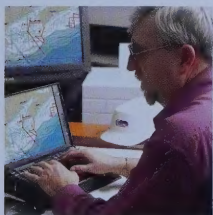
we offer a value driven partnership. By aligning ourselves internationally with leaders in the retail, distribution and restaurant channels; engaging these customers by supplying superior products with predictable pricing; and sharing product and market knowledge, we add value. By adding value, we build strong relationships and a committed and loyal customer base. An indicator of our success is the fact that 77% of our customers have been doing business with Clearwater for 10 years or more.

The magnitude of Clearwater's quota ownership, along with our commitment to resource management, allows us to make substantial investments in leading edge harvesting and processing technologies to better serve our customers. Implementation of



By adhering to the values and goals of our creed, we will realize  
**our vision: dedicated to sustainable seafood excellence,**  
 and achieve strong sustainable financial results over the long-term.

advanced vessels, such as our frozen-at-sea (FAS) scallopers the Atlantic Leader and Atlantic Guardian, allows us to reduce costs through increased yields of superior products that command a premium in the market. In some cases, new technologies drive organic growth by allowing us to harvest and create new product categories from previously unexploited species.



#### **Skilled and Dedicated Employees**

Since 1999, Clearwater has invested more than \$220 million in modernized vessels and processing plants. While the development and use of innovative technology has improved margins and

increased efficiencies, there is no doubt that our people are our most valuable asset.

The success we have had, and will continue to have, is a product of the hard work and dedication of our talented people. They are the true seat of our innovative spirit. They are the ones finding new growth opportunities, new products to develop and new technologies to employ and finally implementing them to increase yield, decrease costs and improve quality.

2003 was a challenging year, and Clearwater's performance is testament to the quality of our employees. This is particularly true in the face of a rising Canadian dollar. With approximately 60% of Clearwater's revenues earned in U.S. dollars, a stronger Canadian dollar is one of the risks and challenges that we actively manage.

An active hedging program effectively mitigated the impact of currency fluctuations throughout the year. We will continue to actively hedge as part of our overall strategy in an international marketplace, however we ultimately look to our employees to lower unit costs and increase productivity on an ongoing basis. We are pleased to say they met with considerable success in 2003, as production costs for most of our major species decreased compared with 2002.

#### **Measuring Success**

Setting targets and measuring our performance against them is something we strongly believe in at Clearwater. Our goals are defined around our unitholders' expectations. Throughout the course of our strategic planning we have established the following performance objectives:

- Consistent and sustainable distributions for unitholders.  
In 2004, we expect distributions will total \$1.15 per unit; and,
- Maintaining a 10% compound annual growth rate in revenues over the next 10 years.

Our focus on innovation and adopting leading-edge technology frequently leads to the early replacement of vessels. Construction of a new FAS clam vessel is expected to begin in 2004 for delivery in 2006. Our budget calls for total capital spending of approximately \$28 million in 2004, including a deposit on the FAS clam vessel. These investments in new vessels, product and productivity improvements and maintenance spending will help to ensure our continued growth while protecting the resource.

In 2003, we encountered challenges and opportunities. We managed through these and overall performance met our expectations. As 2004 unfolds, we are confident we have the people, the infrastructure and customer relationships to achieve our performance objectives by capitalizing on the growing international demand for premium shellfish.

**John C. Risley**  
Chairman  
CS ManPar Inc.

**Colin E. MacDonald**  
Chief Executive Officer  
CS ManPar Inc.

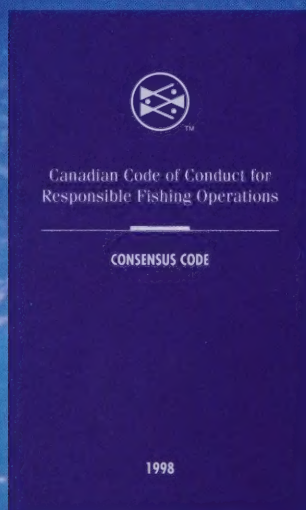


## Resource management

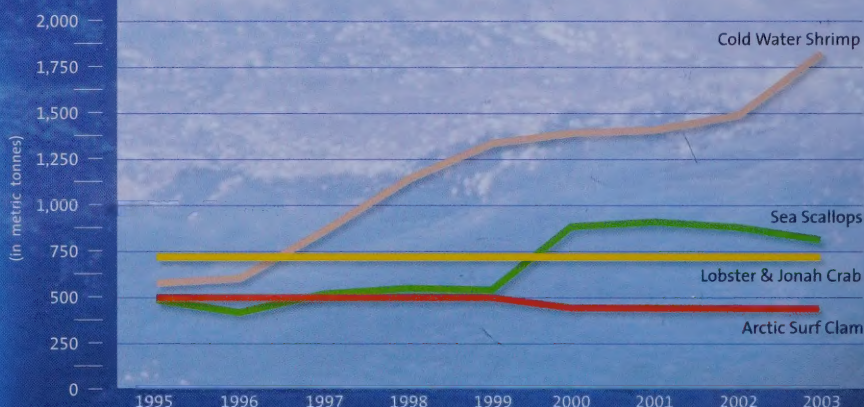
Canada is at the forefront of fisheries management to ensure the sustainability of the seafood resource. Clearwater is proud of the lead role it has taken in working with the Department of Fisheries and Oceans (DFO) and other industry participants to build sustainable resource management regimes in all of our fisheries.

We recognize that the long-term viability of our industry, and in turn the sustainability of our business, rests on the success of industry and government working together to maintain a healthy seafood resource through responsible fishing practices. Clearwater fosters a better understanding of the resource by supporting fishery science through ongoing contributions of financial and other resources to the DFO and the Argentine equivalent, INIDEP.

Having a solid understanding of the resource is fundamental to a sustainable and healthy fishery. In the case of scallops, Clearwater began working with the DFO in the mid-1990s in response to declining scallop quotas. Since that time the offshore scallop TAC has doubled. Today the DFO and industry have a much better understanding of the resource, and we all share in a better-managed fishery.



Total Allowable Catch in Atlantic Canada by Species<sup>1)</sup>



1) For purposes of presentation, the TAC for cold water shrimp and Arctic surf clam should be multiplied by 100 and the TAC for sea scallop should be multiplied by 10 to calculate actual figures. The TAC for lobster and Jonah crab are actual figures.

▲ **Commitment to rights based fisheries** A commitment to rights-based fisheries is key to Clearwater's strategy for sustainability. We firmly believe that an environment where companies and governments share a vested interest in the long-term health of the fishery leads to a well-managed sustainable resource. Clearwater works closely with the Canadian government, and we have taken this commitment to the Argentine scallop fishery. As one of only two licence holders Clearwater is deeply committed to working with scientists and the Argentine government to protect the viability of this valuable scallop resource.



**10-Year Rotational Plan** ▲ As the pioneer of the Canadian Arctic surf clam fishery and owner of 100% of the TAC, Clearwater is keenly interested in intelligently developing and protecting this resource. Arctic surf clams take 10 to 12 years to reach commercial size, making sustainable management practices crucial to a stable fishery. Clearwater, in partnership with the DFO, conducts research cruises and, together with real-time monitoring of our harvesting efforts, has developed a 10-year rotational fishing plan for Banquereau Bank and is completing a similar plan for the Grand Banks to ensure proper resource stewardship.



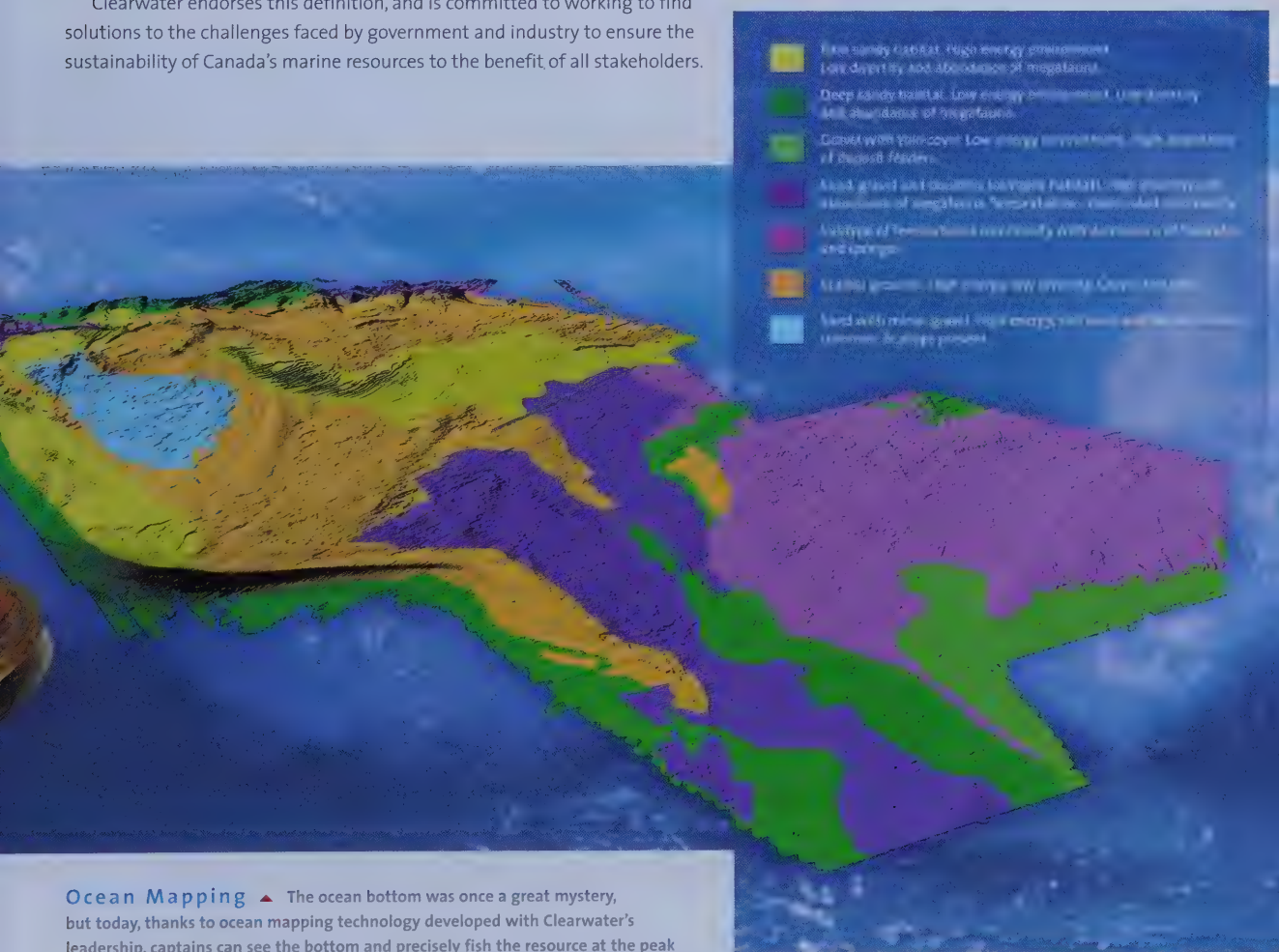
Other initiatives and practices used to ensure sustainability of Canadian fishery resources include:

- *Regulated minimum size restrictions* to allow an opportunity for reproduction and growth to optimal size and value.
- *Closed fishing areas* to protect concentrations of juvenile shellfish from premature harvest.
- *The use of Nordmore grates* in the northern shrimp fishery to reduce by-catch of non-target species.
- *The use of sophisticated bottom mapping technology* in the offshore scallop fishery to more effectively target scallops and reduce bycatch of non-target species.
- *A male-only retention rule* in the Jonah crab and snow crab fisheries to protect the female broodstock.

The Canadian Code of Conduct for Responsible Fishing Operations defines sustainability as:

“The harvesting of a stock in such a way, and at a rate, that does not threaten the health of the stock or inhibit its recovery if it has been in decline, thereby maintaining its potential to meet the needs and aspirations of both present and future generations.”

Clearwater endorses this definition, and is committed to working to find solutions to the challenges faced by government and industry to ensure the sustainability of Canada’s marine resources to the benefit of all stakeholders.



**Ocean Mapping** ▲ The ocean bottom was once a great mystery, but today, thanks to ocean mapping technology developed with Clearwater’s leadership, captains can see the bottom and precisely fish the resource at the peak of its maturity. Having an intimate knowledge of the seabed allows captains to minimize by-catch of unwanted species and juvenile animals, and has contributed to increases in Total Allowable Catch (TAC). In addition, the ability to accurately target fishing grounds means better catch rates, lower fuel consumption and reduced operating costs.



# Innovation

*Innovation is more than a word at Clearwater* – it is a fundamental concept within each of our fisheries and our business as a whole. Through this commitment to innovation, Clearwater has become recognized as a leader in introducing new technologies and practices to the seafood industry.

Innovation alone is not sufficient for business success. Innovation must lead to tangible business benefits and ultimately fuel growth and create value for our unitholders. At Clearwater, we have established a results-oriented culture focused on creating opportunities to increase yields, decrease unit costs, create new products, open new markets, better serve our customer base and improve the work environment and productivity of our employees. This innovative spirit has made Clearwater North America's largest integrated shellfish company and a global industry leader.

Clearwater makes substantial investments to implement state of the art processes and technologies both at sea and on shore. Not only have these investments enhanced financial performance, they have improved quality of life for our employees and quality of seafood for our customers. This, in turn, drives profitability.



**Dryland Lobster Storage** ▲ To ensure year-round delivery of consistent hard-shelled full-meated quality live lobster, Clearwater has developed and operates the industry's first and only dryland lobster storage facility. By duplicating the lobster's natural habitat, Clearwater is able to store up to 2.5 million pounds of lobster in premium condition for up to six months. Innovations such as this ensure Clearwater's customers access to product on an as needed basis 12 months of the year, and have helped Clearwater to develop new markets for Canadian lobster around the world.



The introduction of automatic sorting processes on our scallop vessels has eliminated much of the back breaking labour of the traditional wet fish boats, enabling the crew to work far more efficiently below deck in comfort and safety. Our crews used to remain at sea for much of the year, but by improving our processes today's crews have more predictable schedules and are able to spend more of the year with their families.

Our innovative spirit has also led to the creation of new markets and building profitable new businesses around previously unexploited species. For example, in 1986, Clearwater pioneered the Arctic surf clam fishery. Today, we own 100% of the Total Allowable Catch ("TAC"), which also allows us to harvest the Arctic surf clam by-catch of northern propeller clams and Greenland cockles. As these species are a by-catch of Arctic surf clams, there are very low incremental fixed costs associated with their harvest. In 2003, this market accounted for 16% of sales or \$57 million. Other recently developed species include Argentine scallops and Jonah crab, which represented 10% and 3% of 2003 revenue respectively.

At Clearwater, the innovative spirit is part of everything we do. We will continue to look for new ways to better meet the needs of our customers, employees and unitholders.



▲ **Argentine Scallop Processing** As one of only two nations to harvest Argentine scallops, Clearwater has pioneered the commercial development of this species. The fact that Argentine scallops are smaller in size than Canadian scallops presented a challenge in processing the catch on board. In response, Clearwater developed the sophisticated processing techniques necessary to commercialize this fishery, and today operates two factory vessels using Clearwater-developed technology to ensure the delivery of quality Argentine scallops to customers in Europe and the United States.

**Frozen At Sea Vessels** ▲ Clearwater is always looking to lower harvesting and production costs, increase yields, improve product quality and maximize profitability. Clearwater's Frozen at Sea (FAS) scallop vessels achieve these objectives using state-of-the-art harvesting and processing technology. With increased fishing and storage capability, these technologically advanced vessels enable efficient and cost-effective scallop harvesting. By allowing the catch to be frozen and packed on board within 45 minutes of capture, Clearwater offers the ultimate in product quality, freshness and product safety.



## Customer relationships

In marketing, the saying goes, current customers are your best growth prospects. At Clearwater, we believe this wholeheartedly.

While we are continually seeking new customers, we truly value the relationships we have built with our 1,100 North American, Asian and European customers, many of whom have been our partners for 10 years or more.

Much of our success has come from building strong, long-term alliances with leading retailers, food processors and restaurants. We are extremely proud to be associated with channel leaders such as Sobeys, Publix, Marks & Spencer, Sysco, Carrabas, The Keg and The Palm. We encourage engagement and collaborative planning to deliver targeted solutions and ensure our customer-partners understand the value proposition of Clearwater's premium seafood.

One of Clearwater's key differentiators is total vertical integration. Customers are increasingly looking to consolidate their purchasing with a smaller number of quality suppliers who can provide consistent pricing, high product quality, year-round availability and access to a broad range of products.



**Private Label** ▲ When leading retailers like Canada's Metro Inc., U.S.-based Publix and Marks & Spencer in the U.K. look for partners to help build their successful and innovative private label programs they demand vertically integrated end-to-end solutions that ensure quality and product safety and allow them to focus on what they do best – building profitable house brands. Clearwater's superior quality control and assurance procedures and state-of-the-art facilities exceed customers' high standards, creating the confidence that enables these market leaders to put their name on Clearwater's products and Clearwater's products on their shelves.

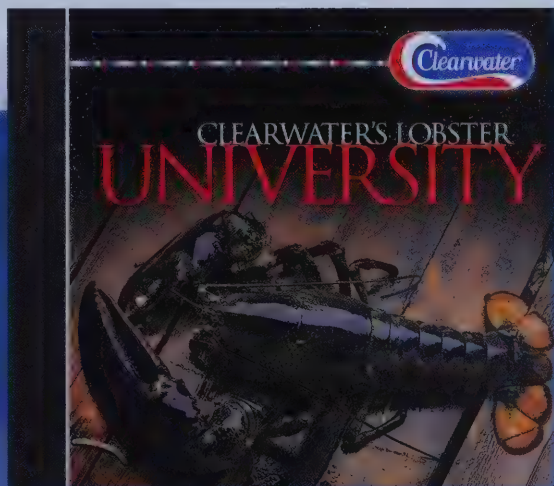


At Clearwater, we take the concept of vertical integration to a new level. Many of our customers are involved in every aspect of the supply chain, from having their own representatives on board our vessels and in our plants, to participating right through to delivery. By encouraging customer involvement we guarantee trust and strong relationships.

We also earn customers' trust by working closely to understand their needs regardless of geographic focus. As the demand for premium seafood has grown worldwide, we have developed a global presence. With three offices in China, four offices in the United States, a UK office to serve our European customer base as well as distribution facilities in Brussels, Belgium and Louisville, Kentucky, we are shoulder to shoulder on the front lines with our customers.

Clearwater prides itself on being a global company. To us this means more than just having a diverse group of customers in a variety of markets. We do business in the language of our customers, and when we think global it is in terms of providing marketing programs, collaborative solutions and product usage ideas that meet our customers' unique cultural requirements.

Strong customer alliances are a significant competitive advantage. We will continue to evolve to meet our customers' needs because we firmly believe that when they succeed, Clearwater succeeds.



▲ **Education Initiatives** While customers demand the highest quality product, reliable supply and consistent pricing, Clearwater believes it can do more to help them grow their businesses. Knowledge is power, and by educating customers we empower them to success. This is the idea behind Clearwater's Lobster University, Scallop School and Clam College, unique education programs initiated in 2001. To date more than 2,000 students have graduated with enhanced product knowledge and an in-depth understanding of Clearwater's value proposition.

▲ **Carrabba's Italian Grill** For Carrabba's Italian Grill founders Johnny Carrabba and Damian Mandola, great meals come from great ingredients. Carrabba's commitment to quality has led to spectacular growth – from a single restaurant in 1986 to 100 locations across the U.S. today. With the ability to guarantee pricing, year-round availability and just-in-time delivery of the highest quality sea scallops to restaurants from coast-to-coast, Clearwater has been an important part of this growth. We take pride in our customers' success, and are honoured to have been chosen as a "purveyor of the year" for the past four years.





## 2003 Financial Performance

- Drove annualized sales by 9.3% year-over-year to \$350 million while increasing gross margin slightly to 27.9%.
- Achieved target of stable and consistent monthly distributions of 9.58 cents per unit, or \$1.15 per unit annualized.
- Achieved net earnings of \$62.1 million, or \$1.22 per unit, despite the impact of a weaker U.S. dollar.
- Diversified debt profile by obtaining \$83 million in the private debt market to capitalize on the highly attractive interest rate environment, obtain a more diversified group of financial partners and enhance flexibility in financing accretive growth opportunities.



# Management's Discussion and Analysis

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") WAS PREPARED EFFECTIVE FEBRUARY 23, 2004. THIS MD&A SHOULD BE READ IN CONJUNCTION WITH THE ANNUAL INFORMATION FORM.

*This Report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties, and other factors outside management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.*

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## Overview of the Fund and Clearwater

Clearwater Seafoods Income Fund (the "Fund") is a limited purpose, open-ended trust established under the laws of the Province of Ontario. The Fund was created to acquire and indirectly hold the securities of Clearwater Seafoods Limited Partnership ("Clearwater").

The Fund commenced operations in July 2002 when it completed an initial public offering of 21,170,435 Units and (indirectly) acquired 45.36% of the partnership units of Clearwater. On August 29, 2002, the Fund issued an additional 2,117,043 Units pursuant to an over-allotment option that had been granted to the underwriters and increased its indirect interest in Clearwater to 49.9%. On December 27, 2002, the Fund issued 1,271,186 Units through a private placement and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 51.23%. On May 21, 2003, the Fund issued 4,000,000 warrants (which were converted to Units shortly thereafter) and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 54.98%. On September 17, 2003, the Fund issued 848,962 Units through a private placement and used the proceeds to acquire an equal number of units in Clearwater increasing its ownership in Clearwater to 55.71%. The balance of Clearwater's units are held by Clearwater Fine Foods Incorporated ("CFFI").

The Fund does not have the right to nominate a majority of the directors of CS ManPar, the managing general partner of Clearwater, as CFFI owns more than 45% of the units on a fully diluted basis (through its ownership of Trust Units and Special Trust Units). Therefore, the Fund does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the Fund's share of the earnings of Clearwater is reflected in the statement of earnings of the Fund

as a one-line item entitled "Equity in the Earnings of Clearwater Seafoods Limited Partnership." Due to the limited amount of information that this provides on Clearwater, the financial statements of Clearwater are included whenever the Fund discloses its financial results.

The Fund acquired its interest in Clearwater on July 30, 2002 and therefore this is the first full annual reporting period of the Fund since its inception. As a result, the 2002 comparative information included in the consolidated statement of earnings and cumulative earnings reflects the results of operations for a period from July 30, 2002 to December 31, 2002. However, within this management's discussion and analysis, comparative annual and quarterly historical information has been presented with notations as to the periods in which the business was operated by CFFI.

Clearwater is a leader in the global seafood industry and is the largest integrated shellfish company in North America, recognized for its consistent quality, wide diversity and reliable delivery of premium seafood including sea scallops, lobster, clams, cold water shrimp, Argentine scallops, Jonah crab and groundfish.



## Management's Discussion and Analysis (cont'd)

### Overall Performance

The fourth quarter has shown continued growth in a challenging environment with sales of \$101.6 million, an increase of 5.4% as compared to the fourth quarter of 2002. One of our chief challenges continues to be the continued strengthening of the Canadian dollar relative to the U.S. dollar. This has provided some pressure on our sales and margins with margins decreasing from 35.1% in the fourth quarter of 2002 to 30.5% during the same period in 2003. Our foreign currency hedging policy effectively helped to mitigate this impact and provided the intended stability to our cash flows and therefore earnings have grown from \$21.2 million in the fourth quarter of 2002 to \$23.8 in 2003, an increase of 11.9%.

On an annual basis 2003 sales were \$350 million, an increase of 9.3% from 2002 and gross profit margins have remained stable at 27.9% in 2003 versus 27.4% in 2002. Net earnings for 2003 were \$62.1 million. In 2002 Clearwater operated as a division of Clearwater Fine Foods Incorporated for the period prior to July 30, 2002 and therefore operated with a different capital structure. As a result net earnings for the annual period are not comparable. Net earnings for the five months from the IPO to December 31, 2002 were \$30.4 million.

The integration of the scallop quota purchased in the second quarter and the operation of the scallop factory processor vessels delivered in 2002 and 2003 have been successful due to higher prices received for frozen at sea scallops, better catch rates and lower costs. We look to further increase the amount of scallops processed in a frozen at sea format, improvements in catching efficiencies and cost reductions in the future.

In the third quarter we made a further investment in our Argentine business increasing our ownership from 70% to 80%. We believe that the Argentine fishery continues to exhibit signs of a stable to strong resource and this investment gives us an opportunity to further solidify our relationship with our Argentine partner and further align his interests with Clearwater's business as a whole.

On December 5, 2003 we announced that we had obtained approximately Canadian \$83 million from a group of institutional lenders in the private debt market as part of our strategy to continue to diversify our debt profile and access longer-term debt. As Clearwater continues to expand, this financing will provide it with access to longer-term debt at attractive fixed interest rates, a more diversified group of financial partners and some additional flexibility in financing accretive growth opportunities.

In 2003 we expected to deliver to our unitholders distributions of \$1.15 per unit. As a result of delivering on this and meeting certain related subordination tests subordination has been removed on 60% of Clearwater's Class B Partnership Units. The remaining subordinated Units, being 9,352,487 units, will remain subordinated until December 31, 2005. Based on distributions of \$1.15 per unit approximately \$10.8 million of distributions remain subordinated on an annual basis.

We expect to continue our current distribution policy in 2004.

In 2004 we intend to enter into a contract to construct a new factory freezer clam vessel, which will replace one of the three existing vessels. This new vessel is expected to cost approximately \$50 million, will take approximately one and one-half to two years to build and will provide a solid return on investment. Once it is operational this new vessel is expected to generate significant incremental contribution by enabling Clearwater to increase the volume of product harvested and processed in a far more efficient manner. Clearwater will fund this vessel with a combination of debt and equity similar to what it has done in the past with other large capital projects.

Over the past year we have faced the challenges of the strengthening Canadian dollar market by continuing to grow our sales volumes along with focusing on reducing costs by increasing productivity and increasing U.S. dollar selling prices in select areas.

We will continue to invest in our leading market position through organic growth and growth through new species and acquisitions and anticipate that it will enable Clearwater to continue to deliver stable earnings and distributions for our unitholders.

## Selected Annual Information

The following section provides historical financial data for the three most recently completed financial years. Clearwater Seafoods Limited Partnership has operated this business since July 30, 2002. However, prior to that period the business operated as a division of Clearwater Fine Foods Incorporated ("CFFI"). Net earnings, long-term

liabilities and equity prior to July 30, 2002 do not fully reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes, minority interest, total long-term debt and equity.

(IN 000'S EXCEPT PER UNIT AMOUNTS)

	2003	2002	2001
Sales	\$ 349,737	\$ 319,928	\$ 290,117
Net earnings	62,117	29,533	8,571
Basic and diluted net earnings per unit	1.22	N/A	N/A
Total assets	374,482	289,919	280,908
Long-term debt	145,802	110,769	170,309
Cash distributions per unit	1.15	N/A	N/A

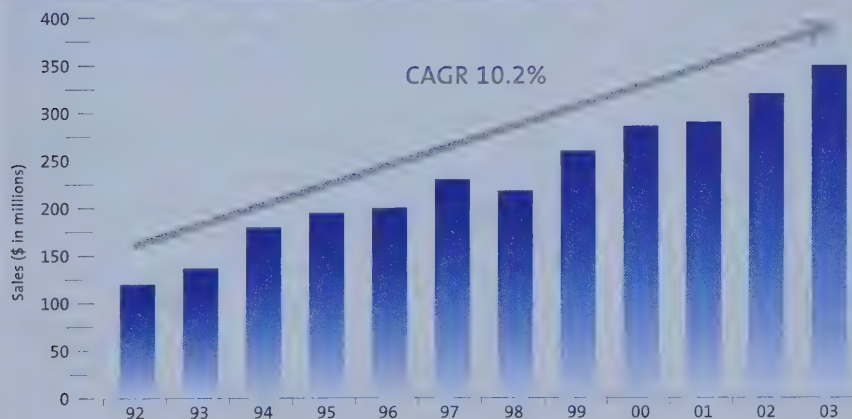
The increase in sales and earnings over the past three years reflects management's commitment to continue the expansion and growth of the business. Net earnings also reflect that growth pattern but have also been impacted by changes in foreign exchange rates, primarily the U.S. dollar, as well as lower interest and income tax costs because of the current capital structure and continued investments in the business.

The increase in total assets reflects continued investment in the business including building a new shrimp factory freezer vessel in May 2002, two new scallop factory freezer vessels, the acquisition of scallop quotas and other fishing assets in May 2003 and the acquisition of an additional 10% interest in Clearwater's Argentine subsidiary in September 2003.

The increase in long-term debt reflects the financing of a portion of the additional investment in the business with new debt facilities. Clearwater's strategy with respect to financing is to use a combination of debt and equity so as to reduce its overall cost of capital while staying within market accepted debt levels.

Cash distributions have remained at an annualized rate \$1.15 per unit since the inception of the business as it is currently structured on July 30, 2002.

**Clearwater's Sales History (1992 – 2003 Compound Annual Growth Rate)**





## Management's Discussion and Analysis (cont'd)

## Vision, Core Business and Strategy

Clearwater's principal assets include unparalleled access to a wide range of premium shellfish, state-of-the-art vessels, and modern at-sea and shore-based processing capacity. Clearwater is well positioned to capitalize on the opportunities created by growing international demand for premium shellfish, a diversified worldwide customer base, consistently high margins, and a fragmented industry comprised of many small enterprises.

In 2003 Clearwater embarked on a process to update its strategic plan. This process began early in the year and has involved management from throughout the Company in revisiting the existing strategy and looking to the future. We expect the process to continue into 2004 and thereafter expect to update it on a regular basis.

Clearwater's vision is to be "dedicated to sustainable seafood excellence." Clearwater will realize this corporate vision through:

- *Leading sustainable harvesting and resource management*
- *Developing its people*
- *Creating value for its customers*
- *Embracing a culture of innovation*
- *Encouraging the entrepreneurial spirit*
- *Continuing to seek opportunities for growth and global development*

By adhering to the values and goals of each of these areas, Clearwater believes that we will realize our corporate vision and achieve strong sustainable financial results over the long-term.

Clearwater's underlying corporate strategy for growth rests on three key pillars of the business:

1. *Innovation through leadership in the adoption of new technology including resource management, vessels, plants, information technology and managerial processes;*
2. *Vertical integration from resource to customer management;*
3. *Diversity of species with a primary emphasis on shellfish.*

The key attributes of this strategy include:

### Resource ownership and management

- Own quota to ensure access to resources;
- Exert leadership in sustainable harvesting and responsible resource management by investing in science and technology as well as partnering with government and industry groups;
- Communicate and leverage these capabilities to customers;
- Maximize our harvesting and processing efficiency;
- Use our market and customer knowledge, and resource expertise and skill to develop highly profitable new products and categories;
- Supplement harvesting with selective procurement.

## Michael Magnus, VICE-PRESIDENT, MARKETING AND SALES

"We truly value the relationships we have built with our 1,100 North American, Asian and European customers, many of whom have been Clearwater's partners for 10 years or more."

### Market and customer focus

- Select the highest profit niches for our products;
- Select a diverse group of the right customers by emphasizing relationship building with customers who can recognize and appreciate our value and differentiation;
- Communicate and deliver value and differentiation;
- Create value for our customers by treating them as partners, supplying a superior product, providing a consistent supply and predictable pricing, as well as sharing our industry leading product knowledge;
- Provide strong support for our customers through a worldwide multilingual, multicultural direct sales force.

### Skilled and dedicated employees

- Invest in our highly trained and motivated employees and provide a safe, engaging, and challenging work environment;
- Foster the entrepreneurial spirit and individual accountability, upon which the Company was built;
- Create a well-integrated team that works together to promptly make executive decisions in the best interests of the total Company.

The operating strategy is the means by which it will meet its overriding goal of delivering value to its unitholders. Throughout the course of our strategic planning Clearwater established the following performance objectives:

- consistent and sustainable distributions for unitholders; in 2004, we expect distributions will total \$1.15 per unit; and,
- maintain 10% top line CAGR (cumulative annual growth)

Clearwater intends to leverage the more than \$220 million that has been invested since 1999 in modernized vessels, its shore-based processing plants and licences. This has already resulted in increased yields, improved product quality, reduced costs, improved environmental responsiveness, and strong stewardship of the resources that Clearwater harvests.

Clearwater will continue to develop new businesses, through the use of technology and research and development. Almost one-third of Clearwater's revenues in 2003 were attributable to relatively new businesses focused on previously unexploited species, such as Arctic surf clams, Argentine scallops and Jonah crab.

Clearwater, the dominant harvester in each of its core fisheries, will continue to pursue acquisitions of complementary businesses and joint venture opportunities.

**Eric Roe, CHIEF OPERATING OFFICER**

"We recognize that the long-term viability of our industry rests on the success of industry and government working together to maintain a healthy seafood resource through responsible fishing practices."

## Key Performance Drivers

Clearwater's key performance drivers include:

- *its quota levels and the amounts harvested and procured;*
- *the markets for the various species of shellfish and the related customer relationships in those markets;*
- *innovation and technology, including Clearwater's ability to leverage science and technology to create new products, increase quality and reduce costs; and,*
- *ensuring Clearwater's employees continue to play an active role in its success.*

**TAC Levels by Species (in metric tonnes)**

	Scallop	Arctic Clam	Lobster	Jonah Crab	Shrimp
1995	4,700	50,000	720	720	57,300
1996	4,075	50,000	720	720	59,335
1997	5,075	50,000	720	720	84,960
1998	5,355	50,000	720	720	114,007
1999	5,300	50,000	720	720	133,132
2000	8,750	44,000	720	720	139,146
2001	8,950	44,000	720	720	140,595
2002	8,650	44,000	720	720	149,642
2003	8,050	44,000	720	720	182,812

## Capability to Deliver Results

Clearwater's revenues and income are dependent primarily on its ability to harvest and, in some cases purchase, shellfish, which, in turn, is dependent to a large extent on the annual total allowable catch ("TAC") for each species. The annual TAC is generally related to the health of the stock of the particular species.

The primary shellfish stocks that Clearwater relies upon are sea scallops, Arctic surf clams, lobster, Argentine scallops and coldwater shrimp, all of which operate in offshore fisheries that have a limited number of participants. Clearwater harvests sea scallops, Arctic surf clams and Argentine scallops with its own vessels. Clearwater obtains its lobster and Coldwater shrimp through harvesting with its own vessels and through purchases from independent fishermen.

- *The sea scallop resource and landings have been strong over the last number of years.* Clearwater believes that this is a very well managed fishery. As expected, in 2004 the announced interim TAC is lower than the levels experienced over the past few years but is well within historic ranges of the past few years.
- *The Arctic surf clam resource is stable.* In addition, Clearwater is now harvesting and marketing a significant amount of the by-catch (i.e., northern propeller clams and Greenland cockles) that is caught by the clam fleet. In 2003 Clearwater was granted a quota to harvest Quahogs.

- *The Argentine scallop resource is strong* due in part to rotational fishing efforts used to manage the resource, which ensures the resource has adequate time to regenerate.
- *The coldwater shrimp resource remains strong* and Clearwater expects that catch rates and landings will continue at historical levels.
- *The lobster resource is strong and landings continue to be high* with no immediate decreases expected.

Clearwater maintains the largest fleet of factory freezer vessels in Canada. It also maintains a large fleet of wet fish trawlers that harvest Clearwater's offshore lobster quota and a portion of its sea scallop allocation. The condition and operating capability of these vessels is paramount for Clearwater successfully operating in its fisheries. Since 1999 Clearwater has invested more than \$220 million, excluding acquisitions, on its fleet, its on-shore processing facilities and licences.

Clearwater typically replaces vessels early as a result of its focus on innovation and constant adoption of new and leading edge technology. These additional investments typically provide greater efficiencies, lower costs and in some cases new product forms.



## Management's Discussion and Analysis (cont'd)

**Michael Pittman**, VICE-PRESIDENT, FLEET

"Clearwater typically replaces vessels early to adapt new innovations and leading edge technology. These additional investments provide greater efficiencies, lower costs and in some cases new product forms."

The following schedule sets out our historic capital expenditures and harvesting licence investments for the past five years:

	2003	2002	2001	2000	1999
Vessels	\$ 6,700	\$ 15,600	\$ 24,500	\$ 30,800	\$ 36,300
Plants and other	4,900	2,000	7,200	13,200	10,100
Licences	53,500	2,100	—	—	3,500
Maintenance capital	2,700	5,100	2,800	1,000	1,600
	\$ 67,800	\$ 24,800	\$ 34,500	\$ 45,000	\$ 51,500

Vessel costs significantly impact the amount spent annually on capital expenditures. The amounts spent on plants, licences and other capital assets typically run between \$5–13 million with \$5 million being more of a base amount with no growth strategy at play. With respect to maintenance capital 2002 was high, \$3 million per year being a reasonable estimate going forward. In 2003 we acquired a significant amount of scallop and groundfish quotas and licences. In 1999 and 2002 we completed expansions at several of our plants.

In addition to the amounts capitalized annually, Clearwater historically has spent and expensed an average of \$13 million a year on the maintenance of its fleet and processing plants. This reflects Clearwater's commitment to ensuring that the assets are kept in top condition enabling it to harvest and process its allowable catch and on the processing side provide additional capacity for selective procurement.

The most costly of our vessels are the factory freezers of which we have nine. These vessels are used in the harvesting of Canadian scallops, Argentine scallops, shrimp and clams. Other vessels typically do not cost as much to replace, an example being a lobster vessel, which would cost about \$500,000 to \$1,000,000 to replace.

The factory vessels typically have long lives of up to 25 years but we typically will replace them earlier if we see an opportunity to upgrade the technology and improve our return. Of the 9 factory vessels:

- *Two are used to harvest shrimp and are less than 3 years old.* These vessels provided incremental returns due to greater harvesting efficiencies and lower fuel costs.
- *Two are used to harvest Canadian sea scallops and are less than 2 years old.* Clearwater has added a third used vessel in 2004 at a cost of approximately \$3.8 million (this vessel is approximately 13 years old and first sailed in 1990). These vessels provide a return on investment well in excess of the cost of capital due to greater harvesting efficiencies, lower costs and a new higher quality product, frozen-at-sea scallops.

- *Two are used to harvest Argentine scallops with one expected to be replaced over the next 5 years and the second sometime thereafter.* Management estimates a new vessel would cost about \$20 million. Management believe that there is opportunity to improve efficiency in this fishery through the investment in new technology as well as additional research.
- *Three are used to harvest clams.* Clearwater plans to replace one vessel over the next two years, a second will most likely be replaced in about five years with the third having a useful life of another 10+ years. Management estimate it will cost about \$50 million to replace a clam vessel. Management believes a new clam vessel will generate incremental earnings by increasing the harvesting capacity and improving the processing efficiency to improve yields. Clearwater intends to commit to the construction of a new vessel in 2004 as more fully set out in the liquidity and capital resources section.

The key criteria for vessel replacement is that a replacement be accretive.

Clearwater will fund future investments in vessels with a combination of debt and equity similar to what it has done in the past with other large capital projects.

Clearwater's management is key in its ability to deliver results. The executive management team has years of experience in the fishing industry with each member having a minimum of 15 years with Clearwater. On January 1, 2004, two members of the executive team retired as planned. Clearwater has a strong succession planning process in place and both individuals will carry on with the Company in part-time roles, ensuring a smooth transition. An illustration of the strength in the succession planning process is the newest member of the executive, Michael Pittman, the new vice-president, fleet. Mr. Pittman has worked with Clearwater for 15 years and has 40 years of experience in the fishing industry.

With respect to competition all segments of the food supply industry are highly competitive. The primary seafood industry is highly fragmented representing minor share positions typically targeting price-conscious consumers. Although Clearwater has a number of competitors in each of its product categories, few of Clearwater's direct competitors offer the diversity of high quality seafood offered by Clearwater.

## Explanation of Annual Results

### CONSOLIDATED OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below for year ended December 31, 2002 includes the earnings of the Business as operated by Clearwater Fine Foods Incorporated ("CFFI") for the period to July 29, 2002 and the earnings of Clearwater for the period from July 30, 2002 to December 31, 2002. The results for 2002 do not fully reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes and minority interest.

	2003	2002
Sales	\$ 349,737	\$ 319,928
Cost of goods sold	252,111	232,383
Gross profit	97,626	87,545
Gross profit %	27.9%	27.4%
Administration and selling	34,579	29,412
Other income	(6,753)	(4,233)
Foreign exchange income	(21,443)	(179)
Bank interest and charges	921	2,445
Interest on long-term debt	6,138	13,072
Depreciation and amortization	15,540	14,003
Reduction in foreign currency translation account	1,443	—
	30,425	54,520
Earnings before income taxes and minority interest	67,201	33,025
Income taxes	2,338	2,036
Earnings before minority interest	64,863	30,989
Minority interest	2,746	1,456
Net earnings	\$ 62,117	\$ 29,533

Sales for the year were \$350 million, an increase of \$29.8 million or 9.3% over 2002. Gross profit increased from 27.4% in 2002 to 27.9% in 2003. Gross profit is primarily impacted by selling prices, volumes, costs to harvest and procure and currency exchange rates.

Sales volumes continue to show strength and have increased by 17% in 2003 as compared to 2002 due primarily to increased sales of our canned clam product, increased scallop sales due to the successful integration of the quota purchased in the second quarter as well as

increased lobster, FAS shrimp and groundfish volumes. In addition, a large portion of the expected revenue from groundfish quotas acquired in the second quarter was realized by contracting the harvest of the 2003 quota for a royalty, which is included in other income.

Prices of most species were lower in 2003 as compared to 2002 due to the impact of the continued strengthening of the Canadian dollar relative to the U.S. dollar. Our sales for the year ended December 31, 2003 by currency and the related rates received were as follows:

Currency	% Sales	2003 Rate	% Sales	2002 Rate
US dollars	58.8%	1.462	61.4%	1.566
Japanese Yen	9.4%	0.013	11.2%	0.013
Euros	9.8%	1.615	7.6%	1.511
UK pounds	5.1%	2.464	4.2%	2.369
Canadian dollar and other	16.9%		15.6%	
	100.0%		100.0%	

Annual net sales to customers by product category were as follows:

	2003	2002
Lobster	\$ 76,065	\$ 66,484
Sea scallop	68,159	64,048
Clam	57,487	50,173
Argentine scallop	33,393	32,754
Groundfish	37,072	39,330
Cold water shrimp	30,769	34,286
Jonah crab	10,048	11,332
Other	24,010	21,521
Hedging program	12,734	—
	\$ 349,737	\$ 319,928

Lobster and sea scallop sales are up primarily due to increased volumes. Sea scallop volumes have increased due to the additional quota purchased which the Company began to realize in the last four months of the year. Clams and Argentine scallop sales were up in 2003 due to higher volumes partially offset by lower prices received as compared to 2002. Groundfish sales are down due to lower prices partially offset by higher volumes. Included in other income are royalties for a large portion of the groundfish quotas acquired in the second quarter. Cold water shrimp sales are down due primarily to lower prices, partially offset by higher volumes. Jonah crab sales are down in 2003 due to lower volumes partially offset by higher prices.



## Management's Discussion and Analysis (cont'd)

Costs of production for all our major species except for lobster and Jonah crab decreased in 2003 as compared to 2002. The costs of crewing our vessels decreased as they are based on the value of the related catch and with decreased selling prices in 2003 the related cost of the catch decreased proportionately. Other positive impacts on costs have been increased efficiencies in our clam and scallop operations.

Overall gross profit margins were 27.9% in 2003 as compared to 27.4% in 2002. Included in sales is \$12.7 million (2002 – nil) of income associated with forward contracts used as part of our hedging program. Excluding this amount from sales and gross margin our margins would have been 25.2%, a decline of 10% from 2002. The primary reason for the decline is due to the impact on selling prices in Canadian dollars of sales made in U.S. dollars.

Administration and selling costs increased by \$5.2 million or 18% in 2003 due to planned wage increases, addition of staff including additional sales staff, provision for short-term incentive plans and development of sales support and manufacturing information technology systems for two business units. We plan to invest approximately another 1% of sales in selling in 2004.

Other income was \$6.8 million in 2003 versus \$4.2 million in 2002, an increase of \$2.6 million. The increase in 2003 relates primarily to gains on the disposal of licences and other capital assets, increased quota royalties (including a large portion of the groundfish quotas acquired in the second quarter) and fees for processing product for other companies.

Foreign exchange income was \$21.4 million in 2003 versus income of \$0.2 million in 2002. These gains and losses result primarily due to realized and unrealized exchange gains from Clearwater's exchange management program which, due to the nature of the financial instruments used, accounting standards require to be included in other income rather than sales. In 2003 foreign exchange income includes approximately \$5.5 million of realized and unrealized gains on long-term debt denominated in foreign currencies, \$20.5 million of income from options including approximately \$8.7 million related to the non-cash, period-end fair-value adjustment of the liability associated with foreign exchange options and \$4.6 million of exchange losses relating to working capital balances.

Bank interest and interest on long-term debt were both lower in 2003 as compared to 2002 due to the fact that Clearwater operated as a division of Clearwater Fine Foods Incorporated in 2002 and had a different capital structure.

Depreciation and amortization increased by \$1.6 million or 11% as compared to 2002 primarily due to depreciation on scallop vessels acquired in late 2002 and early 2003.

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in its subsidiary in Argentina, primarily due to the payment of dividends from the subsidiary.

Income taxes were \$2.3 million or 3.5% of pre-tax earnings in 2003 as compared to \$2.0 million or 6.2% in 2002. Excluding the impact of the reduction in the foreign currency translation account and the booking of a future tax asset, the tax rate was approximately 10% in 2003. This rate is lower than 2002 as in 2003 a greater portion of earnings was generated by non-taxable entities than in 2002. In 2004 as a result of a planned reorganization, one of our Canadian subsidiaries will pay a reduced amount of tax. We estimate that in 2004 the effective tax rates will be more in the 6% range.

Minority interest expense in 2003 relates to Clearwater's subsidiary in Argentina. In 2002 it related to Deep Sea Clam Company, the remaining minority interest of which was acquired in December 2002. In 2003 Clearwater began to record minority interest expense for its Argentine subsidiary as the subsidiary's continued profitability enabled it to turn to a net asset position.

Net earnings increased from \$29.5 million in 2002 to \$62.1 million in 2003. In summary, earnings have increased primarily due to higher sales and gross profit levels, higher other and foreign exchange income, lower interest and long-term debt partially offset by higher administration and selling costs. Management estimate that the High Liner acquisition increased net earnings by approximately \$5 million in 2003 but caution that this is a management estimate as the quotas acquired were integrated into the existing operations and do not exist as a separate business unit.

**Robert Wight**, VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

"Clearwater's strategy with respect to financing is to use a combination of debt and equity so as to reduce its overall cost of capital while staying within market accepted debt levels."

## Distributable Cash and Cash Distributions

For the year ended December 31, 2003 Clearwater generated \$61.5 million of distributable cash and declared distributions of \$58.5 million for a payout ratio of 95% of distributable cash. Please see the Definitions and Reconciliations section for a reconciliation of distributable cash.

For the 17 months since the IPO, Clearwater had generated \$92.6 million of distributable cash and has declared distributions of \$80.9 million for a payout ratio of 87% of distributable cash leaving a surplus of \$11.7 million of distributable cash. Please refer to the distributable cash reconciliation included in this document for detailed reconciliations of these amounts.

All distributions that were paid by Clearwater to the Fund were, in turn, distributed to Unitholders, which resulted in distributions of \$0.0958 per month for the year ended December 31, 2003.

Since the time of the IPO, 23,381,217 Class B Partnership Units of Clearwater have been subordinated to the publicly traded Units with respect to distributions. These Units were to remain subordinated until specific targets with respect to distributions

paid and Adjusted EBITDA (as defined in the related partnership agreement for Clearwater) were met with the earliest date at which the subordination tests could be applied being December 31, 2003.

Based on the weighted average number of units outstanding in 2003 the targets were distributions paid of \$58.5 million and adjusted EBITDA of \$70.3 million. Both of these targets have been met with distributions paid of \$58.5 million and adjusted EBITDA being \$75 million.

As a result of these tests being met, effective January 1, 2004 subordination has been removed on 60% of Clearwater's Class B Partnership Units. The remaining subordinated Units, being 9,352,487 units, will remain subordinated until December 31, 2005. Based on distributions of \$1.15 per unit approximately \$10.8 million of distributions remain subordinated on an annual basis. The unsubordinated units have a right to receive regular monthly distributions and, at the option of the holder, are exchangeable for units of the Fund.

## Liquidity and Capital Resources

As at December 31, 2003 the Fund owns 55.71% (December 31, 2002 – 51.23%) of the outstanding partnership units of Clearwater. However, as Clearwater Fine Foods Incorporated has maintained the right to nominate the majority of the Board of Directors of Clearwater at the time of the initial investment by the Fund, the assets and liabilities at acquisition have been recorded using the book values as recorded by Clearwater Fine Foods Incorporated.

On May 21, 2003, Clearwater completed the High Liner Purchase Agreement pursuant to which Clearwater acquired certain scallop and groundfish licences, quotas and other assets from High Liner Foods Incorporated and extended three loans to unrelated entities that purchased certain of High Liner's assets previously used in connection with such licences and quotas. This acquisition was partially financed through the issue of an additional 4,000,000 units of Clearwater to the Fund increasing the Fund's ownership to 54.98%. The Fund in turn issued 4,000,000 warrants to the public for \$10.60 per unit, which were converted to units shortly thereafter.

The loans extended to the unrelated entities totaled approximately \$14.4 million, \$2.8 million of which has since been collected, \$2.5 million of which was converted to a vendor-take back mortgage on a plant in Louisburg, Nova Scotia and \$4.8 million of which will be realized through the purchase of 4 vessels by Clearwater, including a factory freezer scallop vessel. This leaves a balance of approximately \$4.3 million to be collected. Although it does not

own these unrelated entities, Clearwater has consolidated the results of the entities in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline 15 – Consolidation of Variable Interest Entities, due to its level of influence and economic interest as a result of the related credit agreements.

On September 17, 2003 Clearwater completed the acquisition of an additional 10% interest in its Argentine subsidiary – Glaciar Pesquera S.A. ("Glaciar"), increasing its interest from 70% to 80%. This acquisition was financed through the issuance of an additional 848,962 units of Clearwater to the Fund, bringing the Fund's ownership in Clearwater to 55.71%. The Fund in turn issued 848,962 units to the current minority shareholder of Glaciar for \$12.28 per unit.

As at December 31, 2003 the Fund and Clearwater had similar capital structures as illustrated in the table below:

	Fund	Clearwater
<b>Publicly listed Units</b>		
Trust Units	29,407,626	
Class A Partnership Units		29,407,626
<b>Units Held solely by Clearwater</b>		
<b>Fine Foods Incorporated</b>		
Special Trust Units	23,381,217	
Class B Partnership Units		23,381,217
	52,788,843	52,788,843



## Management's Discussion and Analysis (cont'd)

The Special Trust Units were issued solely to provide voting rights to Clearwater Class B Partnership units. The right of the Class B Partnership units to receive distributions is subordinated to the rights of the Class A units. Class B units that are no longer subject to subordination may at any time at the option of the holder be exchanged for units of the Fund. As a result of meeting specific subordination tests (as set out in the Distributable Cash and Cash Distributions section) effective January 1, 2004 subordination has been removed on 60% of the Clearwater's Class B Partnership Units.

The remaining subordinated Units, being 9,352,487 units, will remain subordinated until December 31, 2005.

On December 5, 2003 Clearwater obtained approximately Canadian \$83 million from a group of institutional lenders in the private debt market as part of its strategy to continue to diversify its debt profile and access longer-term debt. The debt consisted of three series: USD\$15 million due on December 8, 2008 bearing interest at 5.65%; CAD\$43 million due on December 8, 2008 bearing interest at 6.40%; and CAD\$20 million due on December 8, 2013 bearing interest at 7.23%. The balance on these notes at December 31, 2003, in Canadian dollars was \$82.5 million. As Clearwater continues to expand, this financing will provide it with access to longer-term debt at attractive fixed interest rates, a more diversified group of financial partners and some additional flexibility in financing accretive growth opportunities.

The proceeds from this private debt facility were used to reduce the amount outstanding under the \$120 million revolving term debt facility that Clearwater has with its syndicate of five banks. The revolving term \$120 million debt facility, which is due in May 2005, remains available to Clearwater subject to certain conditions with the balance outstanding at December 31, 2003 being \$28.5 million. In May 2004 the banking syndicate at the request of Clearwater may extend the credit until May 2006.

Due to the nature of Clearwater's operations, there are seasonal demands on working capital. These primarily relate to the segments of the business that purchase product from independent fishermen. These purchases cannot be controlled as efficiently as raw materials harvested by Clearwater's own fleet of vessels. However, Clearwater has sufficient capital resources to meet all of its obligations and purchase the product required to meet its operating plans.

Cash flow generated by Clearwater is used to fund current operations, seasonal working capital demands as well as capital expenditures, other commitments and distributions to Unitholders. In addition, Clearwater uses its banking facilities to fund a portion of capital expenditures and seasonal variations in working capital.

Clearwater's operations are seasonal in nature and, as a result, gross profit is typically higher in the second half of the calendar year than the first half of the year.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at December 31, 2003.

Capital expenditures were \$67.8 million for the year ended December 31, 2003. Of this amount, \$65 million was considered ROI (return on investment) capital and \$2.8 million was maintenance capital. The ROI capital investments included the acquisition of licences and quotas in May 2003, the completion of Clearwater's second factory freezer scallop vessel, expansion of our clam cannery and expansion of our snow crab plant.

In 2004 Clearwater intends to enter into a contract to construct a new factory freezer clam vessel, which will replace one of the three existing vessels. The new vessel is expected to cost approximately \$50 million and will take approximately one and one-half to two years to build. This new vessel is expected to generate significant incremental contribution by enabling Clearwater to increase the volume of product harvested and processed in a far more efficient manner. Clearwater has been increasing its volumes recently with the expansion of its canned clam products. This new vessel will be able to stay at sea longer and will also utilize new technology, which will result in increased catching capacity enabling Clearwater to catch more of the existing quota. The new vessel will also provide Clearwater with the additional catching capacity to harvest the Quahog quota that it received in 2003. The vessel will also contain new shell removal technology, which will enable Clearwater to achieve higher yields on the product that it processes. This vessel will be financed in the interim using Clearwater's existing debt facilities with any decision on supplemental financing to be made during the course of the construction term. Clearwater's strategy with respect to financing is to use a combination of debt and equity so as to reduce its overall cost of capital while staying within market accepted debt levels.

In total Clearwater plans to spend approximately \$28 million on capital projects in 2004 with approximately \$17 million to be spent on vessels (including a deposit on the new clam vessel), \$8 million to be spent on new product and productivity improvements in the plants and approximately \$3 million on maintenance capital expenditures. In addition to expenditures on scallop and clam vessels previously noted above it will invest in new processing technology in its clam, scallop and lobster businesses, which will enable it to improve yields, reduce costs and create new product forms.

As at December 31, 2003 commitments for long-term debt, operating leases and other long-term obligations are as follows:

Contractual obligations	Total	Payments Due by Year			
		< 1 Year	1-3 Years	4-5 Years	>5 Years
Long-term debt	145,802	3,515	35,374	69,271	37,642
Operating leases	30,185	4,203	6,717	5,333	13,932
Other obligations	1,995	—	—	—	1,995
	177,982	7,718	42,091	74,604	53,569

Further details on these obligations are disclosed in the notes to the annual consolidated financial statements. Amounts in years 1–3 and 4–5 appear high as non-amortizing term credit facilities are due to be renegotiated during those periods.

## Explanation of Fourth Quarter Results

### CONSOLIDATED OPERATING RESULTS FOR THE THIRTEEN WEEKS ENDED DECEMBER 31, 2003 AND 2002

The results of operations of the Fund are entirely related to Clearwater's performance and therefore the commentary below is on the operations of Clearwater. The statement of earnings disclosed below reflects the unaudited interim earnings of Clearwater for the 13-week periods ended December 31, 2003 and 2002.

	2003	2002
Sales	\$ 101,565	\$ 96,334
Cost of goods sold	70,589	62,554
Gross profit	30,976	33,780
Gross profit %	30.5%	35.1%
Administration and selling	9,924	7,528
Other income	(1,952)	(246)
Foreign exchange income	(8,275)	(1,956)
Bank interest and charges	239	333
Interest on long-term debt	1,661	1,252
Depreciation and amortization	3,836	3,385
	5,433	10,296
Earnings before income taxes and minority interest	25,543	23,484
Income taxes	1,100	1,772
Earnings before minority interest	24,443	21,712
Minority interest	689	477
Net earnings	\$ 23,754	\$ 21,235

The analysis below compares the fourth quarter of 2003 to the fourth quarter of 2002.

Sales for the quarter were \$101.6 million, an increase of \$5.2 million or 5.4% over 2002. Gross profit decreased from 35.1% in 2002 to 30.5% in 2003. Gross profit is primarily impacted by selling prices, volumes, costs to harvest and procure and currency exchange rates.

Sales volumes continue to show strength and have increased by 17% in the last quarter of 2003 as compared to 2002 due primarily to increased sales of our canned clam product and increased scallop sales due to the successful integration of the quota purchased in the second quarter. In addition, a large portion of the expected revenue from groundfish quotas acquired in the second quarter was realized by contracting the harvest of the 2003 quota for a royalty, which is included in other income.

Prices of most species were softer in the fourth quarter of 2003 as compared to 2002 due to the impact of the continued strengthening of the Canadian dollar relative to the U.S. dollar. The business realized a 9% reduction in the exchange on U.S. sales receipts, which represents approximately 53% of sales for the period. Our sales for the quarter ended December 31, 2003 by currency and the related rates received were as follows:

Currency	% Sales	2003 Rate	% Sales	2002 Rate
US dollars	53.0%	1.427	52.6%	1.569
Japanese Yen	9.5%	0.013	14.8%	0.013
Euros	12.0%	1.613	11.3%	1.573
UK pounds	5.4%	2.422	4.7%	2.463
Canadian dollar and other	20.1%		16.6%	
	100.0%		100.0%	



## Management's Discussion and Analysis (cont'd)

Net sales to customers for the quarter by product category were as follows:

	2003	2002
Lobster	\$ 20,293	\$ 19,339
Sea scallop	26,154	24,124
Clam	16,816	17,093
Argentine scallop	8,924	9,555
Groundfish	8,629	6,963
Cold water shrimp	9,215	12,112
Jonah crab	2,251	3,108
Other	3,998	4,040
Hedging program	5,285	—
	\$ 101,565	\$ 96,334

Sea scallop and groundfish sales were up in 2003 due to higher volumes realized from quota acquired in the second quarter partially offset by lower prices received as compared to 2002. Lobster sales were up due to increased volumes partially offset by lower prices. Clam and argentine scallop sales were down in 2003 due to lower prices partially offset by higher volumes. Cold water shrimp sales were down due primarily to lower prices. Jonah crab sales were down due to lower volumes partially offset by higher prices.

Costs of production for all our major species except for Jonah crab decreased in the quarter as compared to 2002. The costs of crewing our vessels decreased as they are based on the value of the related catch and with decreased selling prices in the quarter the related cost of the catch decreased proportionately. Other positive impacts on costs have been increased efficiencies in our clam and scallop operations and lower average costs of Lobster.

Overall gross profit margins were 30.5% in 2003 as compared to 35.1% in 2002. Included in sales is \$5.3 million (2002 – nil) of income associated with forward contracts used as part of our hedging program. Excluding this amount from sales and gross margin our margins would have been 26.7%, a decline of 24% from 2002. The primary reason for the decline is due to the impact on selling prices in Canadian dollars of sales made in U.S. dollars.

Administration and selling costs increased by \$2.4 million or 32% in 2003 due to planned wage increases, addition of staff including additional sales staff, provision for short-term incentive plans and development of sales support and manufacturing information technology systems for two business units offset partially by lower professional fees. We plan to invest approximately another 1% of sales in selling in 2004.

Other income increased by \$1.7 million due primarily to increased income from quota royalties (including a large portion of the groundfish quotas acquired in the second quarter) and increased processing fees for processing product for other companies.

Foreign exchange income was \$8.2 million in 2003 versus \$2 million in 2002. These gains result primarily due to realized and unrealized exchange gains from Clearwater's exchange management program which, due to the nature of the financial instruments used, accounting standards require to be included in other income rather than sales. In 2003 foreign exchange income includes income of approximately \$6.1 million related to the non-cash, period-end fair-value adjustment of the liability associated with foreign exchange options (2002 – 1.5 million).

Interest on long-term debt was higher in 2003 as compared to 2002 due to higher average outstanding debt balances in 2003. Debt levels were higher in 2003 primarily due to the acquisition of quotas in May 2003, which was partially funded by debt.

Depreciation and amortization increased by \$451,000 or 13% as compared to 2002 primarily due to depreciation on scallop vessels acquired in late 2002 and early 2003.

Income taxes were \$1.1 million or 4.3% of pre-tax earnings in 2003 as compared to \$1.77 million or 7.5% in 2002. In the fourth quarter of 2003 a greater portion of earnings was generated by non-taxable entities as compared to 2002.

Minority interest expense relates to Clearwater's subsidiary in Argentina.

Net earnings increased from \$21.2 million in 2002 to \$23.8 million in 2003. In summary, earnings have increased primarily due to higher other and foreign exchange income partially offset by lower gross profit levels and higher administration and selling costs.

**Colin MacDonald**, CHIEF EXECUTIVE OFFICER

"The investments that Clearwater continues to make in technology such as the scallop vessels, the planned clam factory freezer vessel and in new processing equipment will provide a solid base for future growth."

## Outlook

In looking at quarterly results we remind readers that Clearwater's operations are seasonal in nature and the resulting gross profit and distributable cash can vary by quarter due to weather and other factors and as well are substantially higher in the second half of the calendar year than the first half of the year.

The outlook for 2004 is for a slow start to the year with continued increases in sales volumes on an annual basis but little or no upward movement in market prices. Management expects improvements in sales mix in certain areas (in particular frozen-at-sea scallops) and the continued realization of harvesting and production efficiencies.

Foreign exchange, in particular the current strength of the Canadian dollar relative to the U.S. dollar will be a challenge in 2004 and will have the impact of offsetting most of the expected gains in volumes, price and production efficiencies.

The overall result of the above is expected to be sales growth at lower than historic levels and the maintenance of our current distribution policy.

Looking out further the investments that Clearwater continues to make in technology such as the scallop factory freezer vessels, the planned new clam factory freezer vessel and in new processing equipment to name a few, will provide a solid base to future growth.

In looking at quarterly results we remind readers that Clearwater's operations are seasonal in nature and the resulting gross profit and distributable cash is typically higher in the second half of the calendar year than the first half of the year.

## Risk and Uncertainties

The Fund is a limited purpose trust, which is entirely dependent upon the operations and assets of Clearwater. Cash distributions to Unitholders are not guaranteed and depend on the ability of Clearwater to pay distributions on its partnership units. Clearwater's income and cash flow are generated from, and fluctuate with, the performance of its business, which is susceptible to a number of risks, including risks related to resource supply, food processing and product liability, suppliers, customers, competition and foreign exchange exposure. For further disclosure of additional risk factors please refer to the Annual Information Form.

### Resource supply

Clearwater's business depends on a continuing supply of product that meets its quality and quantity requirements. Water temperatures, feed in the water and the presence of predators all influence the level of the catch, and harvesting locations are not necessarily consistently successful from year to year. The availability of seafood in Canadian and Argentinean waters is also dependent on the total allowable catch allocated to Clearwater in a given area. Although the total allowable catch in these areas and Clearwater's enterprise allocations have been largely stable, fishery regulators have the right to make changes in the total allowable catch based on their assessment of the resource from time to time. Any reduction of total allowable catches in the areas from which Clearwater sources seafood, or the reduction of stocks due to changes in the environment or the health of certain species, may have a material adverse effect on Clearwater's financial condition and results of operations.

Resource supply risk is managed through adherence to the Department of Fisheries and Oceans ("DFO") policies and guidelines and our investment in science and technology, which enables Clearwater to understand the species that it harvests. Clearwater has invested in projects with the scientific community, such as ocean floor mapping and the development of rotational fishing plans. The guidelines, developed by DFO, are very often a cooperative effort between industry participants and DFO. Clearwater further mitigates the risk associated with resource supply and competition through the diversification across species, with no one species representing more than 25% of revenue.

### Food processing risks

Clearwater's food processing operations are subject to federal, provincial and local food processing controls, and may be impacted by consumer product liability claims, product tampering, and the possible unavailability and/or expense of liability insurance. A determination by applicable regulatory authorities that any of Clearwater's plants are not in compliance with any such controls in any material respect may allow regulators to shut down plant operations and may have a material adverse effect on Clearwater's financial condition and results of operations. In addition, negative publicity, significant decreases in demand or increased costs associated with any of these circumstances may have a material adverse effect on Clearwater's financial condition and results of operations. Clearwater's operation of its facilities involves some risks, including the failure or substandard performance of equipment,



## Management's Discussion and Analysis (cont'd)

natural disasters, suspension of operations and new governmental statutes, regulations, guidelines and policies. There can be no assurance that as a result of past or future operations, there will be no claims of injury by employees or members of the public.

Food processing and product liability risks are reduced through Clearwater's satisfaction of all Canadian Food Inspection Agency guidelines and through the strict implementation of quality control programs. These include HACCP (Hazard Analysis Critical Control Point) programs on Clearwater's sea- and land-based facilities. Clearwater's plants have been approved by some of the largest seafood purchasers in the world, including Sysco Corporation in the United States and Marks & Spencer in the United Kingdom. Clearwater processes a large portion of its products using frozen-at-sea technology, which also mitigates food processing and product liability risks because many of these products undergo minimal handling and are shipped directly from the vessel.

### Suppliers, Customers and Competition

Consolidation among food distributors results in increased pressure on pricing and trade terms for food processors. Clearwater's operating costs may be negatively affected by increases in inputs, such as energy costs, raw material and commodity prices.

Clearwater uses fuel, electricity, air and ocean freight and other materials in the production, packaging and distribution of its products. Fuel and freight are two significant components of the costs of Clearwater's products and the distribution thereof. The inability of any of Clearwater's suppliers to satisfy its requirements or a material increase in the cost of these inputs may have an adverse effect on Clearwater's financial condition and results of operations.

The seafood industry is highly competitive in all of the markets in which Clearwater participates. Some of Clearwater's competitors have more significant operations within the marketplace, a greater diversification of product lines and greater economic resources than Clearwater and are well established as suppliers to the markets that Clearwater serves. Such competitors may be better able to withstand volatility within the seafood industry and throughout the economy as a whole while retaining greater operating and financial flexibility

than Clearwater. There can be no assurance that Clearwater will be able to compete successfully against its current or future competitors or that competition will not affect Clearwater's financial condition and results of operations. In addition, Clearwater typically does not have written agreements with its customers. Accordingly, a customer may decide to terminate its relationship with Clearwater on relatively short notice. The loss of significant customers may have a material adverse effect on Clearwater's financial condition and results of operations.

Risk associated with suppliers is mitigated through diversification of suppliers and group purchasing opportunities. Risk associated with customers is mitigated through diversification of the customer base. Clearwater has over 1,100 customers worldwide with no individual customer representing more than 5% of sales. Clearwater uses a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate credit risk associated with its customers.

### Foreign exchange exposure

Certain of Clearwater's sales are in United States dollars and other currencies, although cash distributions payable by the Fund and CSLP are in Canadian dollars. As a result, fluctuations may have a material impact on Clearwater's financial results and the amount of cash available for distribution to Unitholders.

Risks associated with foreign exchange are partially mitigated by the fact Clearwater operates internationally, which reduces the impact of any country-specific economic risks on its business. Clearwater also used forward exchange contracts to manage its foreign currency exposures.

## Summary of Quarterly Results

The following provides historical data for the eight most recently completed quarters. Clearwater Seafoods Limited Partnership has operated this business since July 30, 2002. However, prior to that period the business operated as a division of Clearwater Fine Foods Incorporated ("CFFI"). Net earnings prior to July 30, 2002 do not fully reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes and minority interest.

(IN 000'S EXCEPT PER UNIT AMOUNTS)	Sales		Net Earnings		Basic and Diluted Earnings Per Unit	
	2003	2002	2003	2002	2003	2002
Fourth quarter	\$ 101,565	\$ 96,334	\$ 23,754	\$ 21,235	\$ 0.45	\$ 0.45
Third quarter	96,514	90,037	11,569	3,482	0.22	N/A
Second quarter	76,579	68,502	16,913	1,939	0.33	N/A
First quarter	75,079	65,055	9,881	2,877	0.21	N/A

Clearwater's business is seasonal in nature with sales and net earnings typically higher in the second half of the calendar year than the first half of the year, a trend clearly illustrated in the last eight quarters.

In comparing 2003 to 2002 on a quarterly basis the increase in sales and earnings over the past four quarters reflects the continued expansion and growth of the business. Net earnings also reflect that

continued growth pattern but have also been impacted by changes in foreign exchange rates, primarily the U.S. dollar, as well as lower interest and income tax costs under the current capital structure.

For a more detailed analysis of each quarter results please refer to our quarterly reports for first, second and third quarter. For the fourth quarter please refer to the fourth quarter analysis section of this management's discussion and analysis.

## Transactions with Related Parties

During the year ended December 31, 2003 Clearwater was charged \$252,000 by CFFI for use of a corporate airplane (Period from July 30, 2002 to December 31, 2002 – \$105,000), charged CFFI \$236,000 for rent and other services (Period from July 30, 2002 to December 31, 2002 – \$62,000), had an amount receivable from CFFI of \$21,000 (December 31, 2002 due to CFFI – \$2,541,000), and a distribution payable to CFFI of \$6,720,000 (December 31, 2002 – \$6,720,000) relating to the fourth quarter distribution on subordinated units.

Clearwater was charged approximately \$209,000 for vehicle leases in 2003 (Period from July 30, 2002 to December 31, 2002 – \$82,000) and approximately \$78,000 for other services (Period from July 30, 2002 to December 31, 2002 – \$65,000) by companies controlled by a relative of an officer of Clearwater. Clearwater is committed to make payments on these vehicle leases over a period of years ending in 2007 which aggregate in total approximately \$297,000.

Clearwater receives and provides services to certain joint venture partners. Clearwater was charged commissions of \$2,096,000 by joint venture partners in 2003 (Period from July 30, 2002 to December 31, 2002 – \$1,818,000) and charged interest and commissions to joint venture partners of \$777,000 in 2003 (Period from July 30, 2002 to December 31, 2002 – \$215,000).

The following is a summary of the balances with joint venture partners included in the financial statements as at December 31:

	2003	2002
Accounts receivable from joint venture partner	\$ 512	\$ 570
Due from joint venture partner	5,949	5,133
Accounts payable to joint venture partner	254	8
Due to joint venture partner	1,995	1,995

Clearwater had an amount due from a minority owner in a subsidiary located in Argentina of \$nil (December 31, 2002 – \$3,302,000).

These transactions are in the normal course of operations and have been recorded at fair market value.

In addition, CFFI provides certain treasury functions at no charge.

As at December 31, 2003, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of \$11,500,000 (2002 – \$14,781,000). However, the joint venture partner's share of the assets is available for the purpose of satisfying such obligations.



## Management's Discussion and Analysis (cont'd)

## Critical Accounting Policies

Clearwater's critical accounting policies are those that are important to the portrayal of Clearwater's financial position and operations and require management to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that are believed by management to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Management believes the following are the most critical accounting policies and estimates used in the preparation of the consolidated financial statements. For information on other significant accounting policies see the Accounting Policy notes to both Clearwater and the Fund's consolidated financial statements. There have not been any changes to any of Clearwater's significant accounting policies in the past two years. During the course of the year Clearwater reviewed all new accounting standards issued by the Canadian Institute of Chartered Accountants in order to determine the impact of the new standards, if any. In 2003 Clearwater provided financing to unrelated entities as part of the High Liner acquisition and followed Accounting Guideline 15 – Consolidation of Variable Interest Entities. In addition, Clearwater had early adopted Accounting Guideline 13 – Hedging Relationships and as such no adjustments were required with respect to this standard. Looking forward new standards will become effective in 2004 with respect to Asset Retirement Obligations and Impairment of Long-Lived Assets. Clearwater does not expect these new standards to have a material impact on its financial statements.

### Licences

One of the key pillars of Clearwater's business is resource ownership. Ownership of licences and quota (hereafter referred to as licences) ensure continued access to the underlying resource. Clearwater owns underlying licences for a significant portion of the products that it sells.

These licences have indefinite lives and accordingly, they are not amortized but instead are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Clearwater believes the term of these licences to be indefinite as they have nominal annual renewal fees,

there is a low risk of non-renewal and the underlying species are healthy. The impairment test compares the carrying amount of the licences with their fair value and licence agreements with their net recoverable amount, and an impairment loss would be recognized in income for any excess of the carrying value over fair value, which is based on estimated future cash flow multiples.

Estimating the net recoverable amount requires estimates of future cash flows, which are subject to management judgments concerning the health of the underlying resource, sales prices and operating costs. Should management determine that a licence for a specific species was either fully or partially impaired, the underlying book value of the licence would be written down or written off as appropriate.

### Capital assets

Clearwater's capital assets, including its vessels and plants, are depreciated on a straight-line basis over their estimated useful lives. Clearwater believes the straight-line method is the most appropriate as Clearwater has historically spent significant amounts on the maintenance of its fleet and processing plants. Management determines the useful life based on prior experience with similar assets. However, the actual useful life of the assets may differ from management's original estimate due to factors such as technological obsolescence and maintenance activity.

### Derivative financial instruments

Forward exchange contracts and interest rate swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Clearwater writes foreign currency options. These securities, which according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices.

## Financial Instruments

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Forward exchange contracts and interest rate swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs. At December 31, Clearwater had outstanding contracts for 55,000,000 U.S., 1,000,000,000 Yen and 6,600,000 Euros. Although Clearwater has no intention of settling these contracts, at December 31, 2003 Clearwater would have, if it settled these contracts, received a payment of \$5,913,000 (December 31, 2002 – been required to make a payment of \$1,851,000). Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge. For further details on these contracts please refer the note entitled “Financial Instruments.”

Clearwater also writes foreign currency options. These securities, which, according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry of these contracts Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts. At December 31, Clearwater had outstanding contracts for 230,000,000 U.S. and 3,000,000,000 Yen. The market value of these contracts at December 31, 2003 was an asset of \$3.7 million (2002 – liability of \$5 million). This represents the potential net asset (liability) in the event the contracts were closed. The asset recorded in 2003 is included in prepaids and other current assets and the liability recorded in 2002 is included in accounts payable and accrued liabilities. For further details on these contracts please refer to the note entitled “Financial Instruments.”

Clearwater uses interest rate swaps to hedge its exposures to changes in interest rates. While Clearwater has no intention of settling these hedges at December 31, 2003, if Clearwater had settled these contracts it would have been required to pay \$487,000.

Clearwater is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties as Clearwater only deals with highly rated financial institutions.



## Management's Discussion and Analysis (cont'd)

## Definitions and Reconciliations

## EBITDA

Earnings before interest, taxes, depreciation and amortization, reduction in the foreign currency translation account and minority interest ("EBITDA") is not a recognized measure under Canadian generally accepted accounting principles (GAAP) and therefore is unlikely to be comparable to EBITDA measures presented by other companies. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides an indication of cash available for distribution prior to interest, taxes, and capital expenditures. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows.

## Distributable Cash

Distributable cash is not a recognized measure under Canadian generally accepted accounting principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes that distributable cash is a useful supplemental measure as it provides an indication of cash available for distribution. Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows. During the fourth quarter of 2003 CSA Staff Notice 52-306 was issued which specified among other things, that the reconciliation of distributable cash should generally begin with cash flows from operating activities. As a result we have presented the reconciliation under that basis. However, in order to assist the readers of our financial reports in transitioning to the new format, we have presented the format we used previously as well. In future periods we will only prepare the reconciliation using the format as suggested by the Staff Notice.

## Reconciliation of distributable cash as per CSA Staff Notice 52-306

(\$000's EXCEPT PER UNIT AMOUNTS)	13 Weeks Ended Dec. 31, 2003	13 Weeks Ended Dec. 31, 2002	Year Ended Dec. 31, 2003	Period from July 30, 2002 to Dec. 31, 2002
Cash flow from operating activities	\$ 21,119	\$ 20,786	\$ 61,995	\$ 22,840
Add (deduct):				
Change in non-cash working capital <sup>A</sup>	1,795	2,879	6,219	12,511
Minority share EBITDA, interest and taxes <sup>B</sup>	(415)	(231)	(4,691)	(2,050)
Proportionate maintenance capital <sup>C</sup>	(603)	(1,725)	(2,730)	(2,336)
Gain on disposal capital assets/licences <sup>D</sup>	132	154	717	160
Distributable cash	\$ 22,028	\$ 21,863	\$ 61,510	\$ 31,125
Distributions	\$ 15,171	\$ 13,534	\$ 58,502	\$ 22,476
Payout ratio	69%	62%	95%	72%

A. Change in non-cash working capital is excluded as changes in working capital are financed using Clearwater's debt facilities.

B. Minority share in EBITDA, interest and taxes represents cash flows attributable to the minority interest in certain non-wholly owned subsidiaries.

C. Proportionate maintenance capital represents capital expenditures that are related to sustaining existing assets rather than expansion or productivity improvement.

D. Gains and losses on capital assets are added back (deducted) as during the course of operating the business Clearwater will typically realize gains and losses from the turnover of assets, which occurs frequently due to Clearwater's focus on innovation. In the second quarter of 2002 a gain of \$2.2 million was deducted from the calculation of distributable cash as it related to the sale of a licence that did not relate to the typical turnover of assets.

During the first and second quarter of 2003 Clearwater deducted a reserve for vessel replacement from the calculation of distributable cash to provide for the replacement of some scallop vessels due to the acquisition of additional quota in May of 2003. As these expenditures for scallop vessels will be financed from excess distributable cash, management stopped deducting these reserves from the surplus of distributable cash over distributions on a retroactive basis in the third quarter. Clearwater typically finances investments in vessels with a combination of debt and equity.

Clearwater's business is seasonal in nature with the result being that lower amounts of distributable cash are generated in the first half of the year as compared to the latter half. As a result, Clearwater will typically use excess cash generated in the latter half of the year to fund a portion of the distributions paid in the earlier portion of the year. Clearwater funds a portion of the distributions paid in the first half of the year using an advance on its existing debt facilities and repays those advances in the latter portion of the year.

**Reconciliation of distributable cash, previous format**

(\$000's EXCEPT PER UNIT AMOUNTS)	13 Weeks Ended Dec. 31, 2003	13 Weeks Ended Dec. 31, 2002	Year Ended Dec. 31, 2003	Period from July 30, 2002 to Dec. 31, 2002
Net earnings	\$ 23,754	\$ 21,235	\$ 62,117	\$ 30,423
Add (deduct):				
Bank interest and charges	239	333	921	446
Interest on long-term debt	1,661	1,252	6,138	2,209
Depreciation and amortization	3,836	3,385	15,540	5,563
Reduction in CTA account	—	—	1,443	—
Minority interest	689	477	2,746	911
Income taxes	1,100	1,772	2,338	2,795
Non-cash foreign exchange	(5,842)	(1,334)	(8,957)	(1,484)
Minority interest in EBITDA	(510)	(138)	(5,081)	(2,321)
Non-cash gain on sale of assets	—	—	(2,217)	—
Proportionate interest expense	(1,804)	(1,449)	(6,668)	(2,386)
Proportionate cash taxes	(492)	(1,945)	(4,079)	(2,696)
Proportionate maintenance capex	(603)	(1,725)	(2,731)	(2,335)
Distributable cash	\$ 22,028	\$ 21,863	\$ 61,510	\$ 31,125

**Adjusted EBITDA**

Adjusted EBITDA is defined in the Clearwater Seafoods Limited Partnership Amended and Restated Limited Partnership Agreement as EBITDA for the relevant period adjusted to eliminate minorities' interest in such EBITDA plus non-cash foreign exchange losses and less non-cash foreign exchange gains for such period. Adjusted EBITDA is used only as a measure of whether a portion of the subordination test has been met. Adjusted EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of performance, as a measure of liquidity or as a measure of cash flows.

**Reconciliation of adjusted EBITDA for the year ended December 31, 2003**

(\$000's EXCEPT PER UNIT AMOUNTS)	
Net earnings	\$ 62,117
Add (deduct):	
Bank interest and charges	921
Interest on long-term debt	6,138
Depreciation and amortization	15,540
Reduction in CTA account	1,443
Minority interest	2,746
Income taxes	2,338
Non-cash foreign exchange	(8,957)
Minority interest in EBITDA	(5,081)
Non-cash gain on sale of assets	(2,217)
	\$ 74,988

**Gross Profit**

Gross profit consists of sales less harvesting, production, distribution, and manufacturing costs.



## Clearwater Seafoods Income Fund Management's Statement of Responsibility for Financial Reporting

The consolidated financial statements and all related financial information contained in this annual report, including Management's Discussion and Analysis, are the responsibility of the management of Clearwater Seafoods Income Fund. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of CS ManPar Inc., the managing partner of Clearwater Seafoods Limited Partnership, is responsible for ensuring that management fulfills its responsibilities for financial

reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three non-management directors. The committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Trustees.

KPMG LLP, the independent auditors appointed by the Trustees, have audited the Fund's consolidated financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.



**Colin MacDonald**  
Chief Executive Officer

February 13, 2004



**Robert Wight**  
Vice-President, Finance and  
Chief Financial Officer

## Clearwater Seafoods Income Fund Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Income Fund as at December 31, 2003 and 2002 and the consolidated statements of earnings and cumulative earnings and cash flows for the year and period then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the year and period then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**  
Halifax, Canada

February 13, 2004

# Clearwater Seafoods Income Fund

## Consolidated Balance Sheet

(IN THOUSANDS OF DOLLARS)  
DECEMBER 31

2003

2002

### ASSETS

#### Current Assets

Distribution receivable from Clearwater Seafoods Limited Partnership	\$ 2,817	\$ 2,352
Investment in Clearwater Seafoods Limited Partnership (NOTE 3)	303,757	249,353
	<u>\$ 306,574</u>	<u>\$ 251,705</u>

### LIABILITIES AND UNITHOLDERS' EQUITY

#### Current Liabilities

Distribution payable to unitholders	\$ 2,817	\$ 2,352
-------------------------------------	----------	----------

#### Unitholders' Equity

Trust units (NOTE 4)	298,454	245,625
Cumulative earnings	48,202	15,004
Cumulative distributions (NOTE 5)	(42,899)	(11,276)
	<u>303,757</u>	<u>249,353</u>
	<u>\$ 306,574</u>	<u>\$ 251,705</u>

See accompanying notes to consolidated financial statements

Approved by the Board of Trustees:



Purdy Crawford



James Gogan



## Clearwater Seafoods Income Fund

### Consolidated Statement of Earnings and Cumulative Earnings

(IN THOUSANDS OF DOLLARS)	Year Ended December 31 2003	Period from July 30 to December 31 2002
Equity in earnings of Clearwater Seafoods Limited Partnership and net earnings	\$ 33,198	\$ 15,004
Cumulative earnings at beginning of period	\$ 15,004	—
Cumulative earnings at end of period	\$ 48,202	\$ 15,004
Basic and diluted net earnings per trust unit	\$ 1.21	\$ 0.64

See accompanying notes to consolidated financial statements

## Clearwater Seafoods Income Fund

### Consolidated Statement of Cash Flows

(IN THOUSANDS OF DOLLARS)	Year Ended December 31 2003	Period from July 30 to December 31 2002
<b>Cash flows from operating activities</b>		
Net earnings	\$ 33,198	\$ 15,004
Items not involving cash		
Equity in earnings of Clearwater Seafoods Limited Partnership, net of cash distributions received of \$31,623 (2002 – \$11,276)	(2,327)	(3,904)
Other	752	176
	31,623	11,276
<b>Cash flows from financing activities</b>		
Issuance of units (NOTE 4)	42,400	232,875
Distributions to unitholders (NOTE 5)	(31,623)	(11,276)
	10,777	221,599
<b>Cash flows from investing activities</b>		
Acquisition (NOTE 3)	(42,400)	(232,875)
<b>Increase (decrease) in cash</b>	—	—
<b>Cash – beginning of period</b>	—	—
<b>Cash – end of period</b>	\$ —	\$ —

#### Non-cash transactions:

In September 2003 the Fund issued units with a value of \$10.4 million in exchange for additional units of Clearwater Seafoods Limited Partnership, who in turn used the units to acquire an additional interest in its' Argentine subsidiary.

In December 2002 the Fund issued units with a value of \$12.8 million in exchange for additional units of Clearwater Seafoods Limited Partnership, who in turn used the units along with cash to acquire the remaining interest in one of its' subsidiaries – Deep Sea Clam Company Incorporated.

See accompanying notes to consolidated financial statements

# Clearwater Seafoods Income Fund

## Notes to Consolidated Financial Statements

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

### Note 1 – BASIS OF PRESENTATION

Clearwater Seafoods Income Fund (the "Fund") is a limited purpose, open-ended trust established under the laws of the Province of Ontario. The Fund was created to acquire and indirectly hold the securities of Clearwater Seafoods Limited Partnership ("Clearwater").

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust. Clearwater Seafoods Holdings Trust owns 55.71% (December 31, 2002 – 51.23%) of the units of Clearwater Seafoods Limited Partnership ("Clearwater"). However, as the Fund does not

have the right to nominate the majority of the Board of Directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater the financial statements of Clearwater are also enclosed.

### Note 2 – ACCOUNTING POLICES

The financial information contained in the accompanying consolidated financial statements has been prepared in accordance with Canadian generally accepted accounting principles.

#### (a) Intangible assets and goodwill

The excess of the Fund's cost of its investment in units of Clearwater over the proportionate share of net assets of Clearwater has been allocated to licences with indefinite lives, licences with finite lives, customer relationships and goodwill.

Licences have indefinite lives and are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Licence agreements have finite lives and are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the licences with their fair value and licence agreements with their net recoverable amount, and an impairment loss would be recognized in income for any excess of the carrying value over fair value.

Customer relationships are amortized over their useful lives as estimated based on customer turnover rates.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the fair value of goodwill is less than its carrying amount, the implied value of the reporting unit's goodwill is compared to the carrying value of goodwill and an impairment loss would be recognized in an amount equal to the excess and it would be disclosed in the statement of earnings.

#### (b) Consolidation

These consolidated financial statements consolidate the accounts of the Fund and its subsidiary, Clearwater Seafoods Holdings Trust, from the date of acquisition on July 30, 2002.

As the Fund does not have the right to nominate the majority of the Board of Directors, it does not consolidate the results of Clearwater's operations but rather accounts for the investment using the equity method. Under this method, the cost of the investment is increased by the Fund's proportionate share of Clearwater's earnings and reduced by any distributions paid to the Fund by Clearwater and amortization of the purchase price discrepancy. Due to the limited amount of information that this provides on the underlying operations of Clearwater the financial statements of Clearwater are also enclosed.

#### (c) Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. As substantially all taxable income has been allocated to the unitholders, no provision for income taxes on earnings of the Fund has been made in these financial statements. Income tax liabilities relating to distributions of the Fund are the obligations of the unitholders.

#### (d) Distributions to unitholders

The Fund's distribution policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices.

It is anticipated that cash distributions will be payable monthly to the unitholders of record on the last business day of each month and will be paid no later than the 15th day of the following month or, if such day is not a business day, not later than the next business day.



## Clearwater Seafoods Income Fund

### Notes to Consolidated Financial Statements

#### (e) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Fund may undertake in the future.

#### (f) Financial instruments

The carrying value of the receivable from Clearwater and distributions payable to unitholders approximate fair values based on the short-term maturity of these instruments.

## Note 3 – INVESTMENT IN CLEARWATER SEAFOODS LIMITED PARTNERSHIP

The investment in Clearwater Seafoods Limited Partnership consists of the following:

DECEMBER 31	2003	2002
Investment in units, at cost	\$ 298,454	\$ 245,625
Add: Cumulative equity in earnings	48,202	15,004
Less: Cumulative distributions received	(42,899)	(11,276)
	\$ 303,757	\$ 249,353

#### (a) Initial investment

The Fund, using proceeds from the Initial Public Offering and overallotment, acquired a 49.9% interest in Clearwater for cash consideration of \$232,875,000. The acquisition was accounted for using the equity method and the results of Clearwater have been included in the Fund's consolidated statements from the date of acquisition. Details of the allocation of the assigned values were as follows:

Tangible assets acquired	
Current assets	\$ 48,647
Capital and other long-term assets	67,337
Intangible assets acquired	
Licences – indefinite lives	185,007
Licences – finite lives	2,664
Customer relationships	500
Goodwill	18,759
Liabilities assumed	
Current liabilities	(27,826)
Long-term liabilities and minority interest	(62,213)
Net assets acquired	\$ 232,875

#### (b) December 2002 investment

On December 27, 2002, the Fund, using proceeds from a private placement, acquired an additional 1.33% interest in Clearwater for \$12,750,000 bringing the Fund's ownership in Clearwater to 51.23%. The excess of the purchase price over the proportionate share of net assets, being \$11,189,000, was allocated to licences, licence agreements, customer relationships and goodwill.

#### (c) May 2003 investment

As part of the financing for the High Liner Purchase Agreement by Clearwater in May 2003 the Fund acquired an additional 4,000,000 units of Clearwater for \$42.4 million. The excess of the purchase price over the proportionate share of the net assets, being \$15,905,000, was allocated to licences, licence agreements and customer relationships.

#### (d) September 2003 investment

As part of the financing for the acquisition by Clearwater of an additional 10% interest in its Argentine subsidiary, Glaciar Pesquera S.A., the Fund acquired an additional 848,962 units of Clearwater for \$10.4 million, bringing the Fund's ownership in Clearwater to 55.71%. The excess of the purchase price over the proportionate share of the net assets, being \$3.5 million, has been allocated to licences.

(e) Included in equity in earnings is an expense of \$752,000 (Period from July 30, 2002 to December 31, 2002 – \$176,000) for amortization and other adjustments relating to purchase price discrepancies recognized by the Fund in accounting for its investment in Clearwater using the equity method.

## Note 4 — TRUST UNITS AND SPECIAL TRUST UNITS

The Declaration of Trust provides that an unlimited number of units and an unlimited number of Special Trust Units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. All units have equal rights and privileges. Each unit entitles the holder thereof to participate equally in the distributions and to one vote at all meetings of unitholders for each whole unit held. The issued units are not subject to future calls or assessments. Units are redeemable at any time at the option of the holder at amounts related to market price at the time, subject to a maximum of \$50,000 in aggregate cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of assets of the Fund, namely notes of Clearwater Seafoods Holdings Trust.

The Special Trust Units have been issued solely to provide voting rights to Clearwater Class B units ("CSLP Exchangeable Units"). Special Trust Units were issued in conjunction with the CSLP Exchangeable Units and cannot be transferred separately from them. Special Trust Units entitle the holders thereof to the number of votes at any meeting of unitholders of the Fund equal to the number of units which may be obtained upon exchange of the CSLP Exchangeable Units to which they relate and do not otherwise entitle the holder to any rights with respect to the Fund's property or income.

CSLP Exchangeable Units that are no longer subject to subordination (as described below) may at any time thereafter at the option of the holder be exchanged on a one-for-one basis for units of the Fund.

The right of the holders of CSLP Exchangeable Units to receive distributions from Clearwater is subordinated to the rights of holders of Class A limited partnership units of Clearwater (CSLP Ordinary Units) until the date on which both (i) distributions paid in respect of a fiscal year on the CSLP Ordinary Units and the CSLP Exchangeable Units total at least \$1.15 per unit; and (ii) Clearwater has earned Adjusted EBITDA of at least \$1.38 per unit for the same fiscal year; provided that in any event the earliest date in respect of which subordination shall end in respect of 60% of the CSLP Exchangeable Units shall be December 31, 2003 and in respect of the remaining 40%, December 31, 2005. These tests were met for the year ended December 31, 2003 and as a result 40% of the Class B units, or 9,352,487 units, are subordinated as at January 1, 2004.

CSLP Exchangeable Units that are subject to subordination as described above are not during such period of subordination exchangeable into units of the Fund and their entitlement to distributions from Clearwater in respect of any month during such period is subordinated until CSLP Ordinary Units and CSLP Exchangeable Units that at the time are not subject to subordination have received distributions of at least \$0.0958 per unit in respect of such month.

	Special Trust		\$
	Units	Units	
Issuance of Units, July 2002	21,170,435	—	\$ 211,704
Issuance of Special Trust Units July 2002	—	25,498,260	—
Issuance of Units, August 2002	2,117,043	—	21,171
Redemption of Special Trust Units, August 2002	—	(2,117,043)	—
Issuance of Units, December 2002	1,271,186	—	12,750
Balance December 31, 2002	24,558,664	23,381,217	245,625
Issuance of Units, May 2003	4,000,000	—	\$ 42,400
Issuance of Units, September 2003	848,962	—	\$ 10,429
	29,407,626	23,381,217	\$ 298,454

On July 30, 2002 the Fund issued 21,170,435 units at a price of \$10 per unit pursuant to an Initial Public Offering for proceeds of \$211,704,350. On August 29, 2002, the Fund issued an additional 2,117,043 units at \$10 per unit for proceeds of \$21,170,430 pursuant to an over-allotment option with the underwriters. The proceeds of these offerings were used to acquire 49.9% of the partnership units of Clearwater. The expenses of the offering and underwriter's fees were paid directly by Clearwater.

On December 27, 2002 the Fund issued 1,271,186 units for \$10.03 per unit for net proceeds of \$12,750,000 through a private placement. The proceeds were used to acquire 1,271,186 units in Clearwater bringing the Fund's ownership in Clearwater to 51.23%.

As part of the financing for the High Liner Purchase Agreement by Clearwater, the Fund issued 4,000,000 Special Warrants for which proceeds of \$42.4 million were received. These Special Warrants were converted into 4,000,000 partnership units in May 2003.



## Clearwater Seafoods Income Fund

### Notes to Consolidated Financial Statements

As part of the financing for the Glaciar Pesquera S.A. investment, 848,962 units of the Fund were issued to the current minority shareholder of Glaciar at an issuance price of \$12.28 per unit.

As at December 31, 2003 there were in total 52,788,843 units outstanding (December 31, 2002 – 47,939,881).

In determining the earnings per unit the weighted average number of units outstanding was calculated assuming that units issued in May 2003 and September of 2003 were outstanding for the full month as those units received the full distribution for those months.

### Note 5 – DISTRIBUTIONS

During the year ended December 31, 2003, the Fund declared the following cash distributions:

Declaration Date	Record Date	Payment Date	Distribution Per Unit	Total
<b>First quarter</b>				
January 20, 2003	January 31, 2003	February 17, 2003	\$ 0.0958	\$ 2,352
February 17, 2003	February 28, 2003	March 17, 2003	0.0958	2,352
March 17, 2003	March 31, 2003	April 15, 2003	0.0958	2,352
				7,056
<b>Second quarter</b>				
April 17, 2003	April 30, 2003	May 15, 2003	\$ 0.0958	\$ 2,353
May 20, 2003	May 30, 2003	June 13, 2003	0.0958	2,736
June 18, 2003	June 30, 2003	July 15, 2003	0.0958	2,736
				7,825
<b>Third Quarter</b>				
July 17, 2003	July 31, 2003	August 15, 2003	\$ 0.0958	\$ 2,736
August 14, 2003	August 29, 2003	September 15, 2003	0.0958	2,736
September 19, 2003	September 30, 2003	October 15, 2003	0.0958	2,817
				8,289
<b>Fourth Quarter</b>				
October 20, 2003	October 31, 2003	November 14, 2003	\$ 0.0958	\$ 2,818
November 17, 2003	November 28, 2003	December 15, 2003	0.0958	2,818
December 12, 2003	December 31, 2003	January 15, 2004	0.0958	2,817
				8,453
				\$ 31,623

Since inception the Fund has distributed \$42,899,000.

### Note 6 – ADMINISTRATION AGREEMENT

The Fund has entered into an Administration Agreement with Clearwater. Under the terms of the agreement, Clearwater is responsible to provide administrative and support services to the Fund and is to provide these services for no additional consideration, other than payment of out-of-pocket expenses. There were no charges for out-of-pocket expenses during this period.

## Clearwater Seafoods Limited Partnership Management's Statement of Responsibility for Financial Reporting

The consolidated financial statements and all related financial information contained in this annual report, including Management's Discussion and Analysis, are the responsibility of the management of Clearwater Seafoods Limited Partnership. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of CS ManPar Inc., the managing partner of Clearwater Seafoods Limited Partnership, is responsible for ensuring that management fulfills its responsibilities for financial

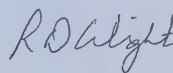
reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three non-management directors. The committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

KPMG LLP, the independent auditors appointed by the trustees, have audited the Partnerships consolidated financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.



**Colin MacDonald**  
Chief Executive Officer

February 13, 2004



**Robert Wight**  
Vice-President, Finance and  
Chief Financial Officer

## Clearwater Seafoods Limited Partnership Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Clearwater Seafoods Limited Partnership as at December 31, 2003 and 2002 and the consolidated statements of earnings and cumulative earnings and cash flows for the year and period then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the year and period then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**  
Halifax, Canada

February 13, 2004

## Clearwater Seafoods Limited Partnership

### Consolidated Balance Sheet

(IN THOUSANDS OF DOLLARS)  
DECEMBER 31

	2003	2002
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 564	\$ 759
Accounts receivable	52,763	51,967
Inventories	47,749	45,954
Prepays and other	9,144	5,694
	110,220	104,374
Other long-term assets (NOTE 3)	18,500	10,266
Capital assets (NOTE 4)	126,749	124,502
Licences (NOTE 5)	108,443	41,805
Goodwill	8,972	8,972
Minority interest	1,598	—
	\$ 374,482	\$ 289,919
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 38,320	\$ 45,033
Distributions payable	9,537	9,072
Income taxes payable	453	3,032
Current portion of long-term debt (NOTE 6)	3,515	2,794
	51,825	59,931
Long-term debt (NOTE 6)	142,287	107,975
Future income taxes (NOTE 7)	13,004	9,719
Due to joint venture partner	1,995	1,995
<b>Unitholders' Equity</b>		
Partnership units (NOTE 8)	172,251	122,133
Cumulative earnings	92,540	30,423
Cumulative distributions (NOTE 9)	(80,978)	(22,476)
Cumulative foreign currency translation account (NOTE 10)	(18,442)	(19,781)
	165,371	110,299
	\$ 374,482	\$ 289,919
Commitments (NOTE 11)		

See accompanying notes to consolidated financial statements

Approved by the Board of Directors of CS ManPar Inc.:



**John Risley**  
Chairman



**Colin MacDonald**  
Chief Executive Officer



## Clearwater Seafoods Limited Partnership

### Consolidated Statement of Earnings and Cumulative Earnings

(IN THOUSANDS OF DOLLARS)	Year Ended December 31 2003	Period from July 30 to December 31 2002
Sales	\$ 349,737	\$ 156,006
Cost of goods sold	252,111	105,935
Gross profit	97,626	50,071
Administration and selling	34,579	12,007
Other income	(6,753)	(918)
Foreign exchange income	(21,443)	(3,365)
Bank interest and charges	921	446
Interest on long-term debt	6,138	2,209
Depreciation and amortization	15,540	5,563
Reduction in foreign currency translation account (NOTE 10)	1,443	—
	30,425	15,942
Earnings before the undernoted	67,201	34,129
Income taxes (NOTE 7)	2,338	2,795
Earnings before minority interest	64,862	31,334
Minority interest	2,746	911
Net earnings	\$ 62,117	\$ 30,423
Cumulative earnings at beginning of period	\$ 30,423	\$ —
Cumulative earnings at end of period	\$ 92,540	\$ 30,423
Basic and diluted net earnings per unit	\$ 1.22	\$ 0.64

See accompanying notes to consolidated financial statements

## Clearwater Seafoods Limited Partnership

### Consolidated Statement of Cash Flows

(IN THOUSANDS OF DOLLARS)	Year Ended December 31 2003	Period from July 30 to December 31 2002
<b>Cash flows from operating activities</b>		
Net earnings	\$ 62,117	\$ 30,423
Items not involving cash		
Depreciation and amortization	15,540	5,563
Foreign exchange on long-term debt	(306)	519
Future income taxes (recovery)	(1,741)	98
Reduction in foreign currency translation account	1,443	—
Minority interest	2,746	911
Unrealized foreign exchange on currency option contracts	(8,651)	(1,586)
Gain on disposal of capital assets and licences	(2,934)	(577)
	68,214	35,351
Change in non-cash operating working capital	(6,219)	(12,511)
	61,995	22,840
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	102,537	71,431
Reduction of long-term debt	(67,198)	—
Other	364	(392)
Distributions to minority partners	(5,514)	—
Issuance of units	39,757	216,531
Redemption of units	—	(19,953)
Distributions to unitholders (NOTE 8)	(58,502)	(13,404)
	11,444	254,213
<b>Cash flows from investing activities</b>		
Increase in other long-term assets and other	(12,828)	(273)
Purchase of capital assets and licences	(67,762)	(4,441)
Proceeds on disposal of capital assets, licences and assets held for resale	6,956	—
Acquisitions (NOTE 10)	—	(271,853)
	(73,634)	(276,567)
<b>Increase (decrease) in cash</b>	<b>(195)</b>	<b>486</b>
<b>Cash – beginning of period</b>	<b>759</b>	<b>273</b>
<b>Cash – end of period</b>	<b>\$ 564</b>	<b>\$ 759</b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 6,750	\$ 2,604
Income taxes paid	6,634	1,355
<b>Change in non-cash working capital consists of changes in the following accounts:</b>		
Accounts receivable	(796)	(10,991)
Inventories	(1,795)	2,746
Foreign exchange on currency contracts	8,651	(1,586)
Prepays	(3,450)	1,848
Accounts payable and accrued liabilities	(6,250)	(9,042)
Income taxes payable	(2,579)	1,342
	\$ (6,219)	\$ (12,511)

#### Non-cash transactions:

In September 2003 Clearwater issued units with a value of \$10.4 million in exchange for an additional interest in its Argentine subsidiary.

In December 2002 Clearwater issued units with a value of \$12.8 million along with cash in exchange for the remaining interest in one of its subsidiaries – Deep Sea Clam Company Incorporated.

See accompanying notes to consolidated financial statements

# Clearwater Seafoods Limited Partnership

## Notes to Consolidated Financial Statements

(TABULAR AMOUNTS EXPRESSED IN THOUSANDS OF DOLLARS)

### Note 1 – BASIS OF PRESENTATION

Clearwater Seafoods Limited Partnership ("Clearwater") is a limited partnership that acquired the seafood business of Clearwater Fine Foods Incorporated ("CFFI") on July 30, 2002.

As CFFI maintained the right to nominate the majority of the Board of Directors both before and after the acquisition of its

seafoods business by Clearwater Seafoods Limited Partnership the acquisition was accounted for using the book values of the assets and liabilities as recorded by CFFI.

### Note 2 – ACCOUNTING POLICIES

The financial information contained in the accompanying consolidated financial statements has been prepared in accordance with Canadian Generally Accepted Accounting Principles.

#### (a) Consolidation

These consolidated financial statements include the accounts of Clearwater and its subsidiaries and joint ventures.

Clearwater's investments in joint ventures are recognized in the financial statements using the proportionate consolidation method.

#### (b) Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value.

#### (c) Capital assets

Capital assets are stated at cost less government assistance. Depreciation is provided on a straight-line basis to amortize the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings and wharves, 3 to 17 years for equipment and 10 to 20 years for vessels. Additions are depreciated at one-half the normal rates in the first year of use except significant additions, which are depreciated commencing in the month they are put into use.

#### (d) Licences and licence agreements

Licences and licence agreements represent intangible assets acquired directly or in a business combination that meet the specified criteria for recognition apart from goodwill and are recorded at their fair value at the date of acquisition.

Licences have indefinite lives and are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Licence agreements have finite lives and are amortized over the term of the related agreement and tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

The impairment test compares the carrying amount of the licences with their fair value and licence agreements with their net recoverable amount, and an impairment loss would be recognized in income for any excess of the carrying value over fair value.

#### (e) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the fair value of a reporting unit is less than its carrying amount, the implied value of the goodwill is compared to the carrying value of the goodwill and an impairment loss recognized and it would be disclosed in the statement of earnings.

#### (f) Due to joint venture partner

The amount due to joint venture partner of \$1,995,000 is a non-interest bearing capital advance that is repayable only upon dissolution of the joint venture partnership.

#### (g) Translation of foreign currencies

The accounts of a subsidiary company which is considered to be a self-sustaining operation have been translated to Canadian dollars using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the rates in effect on the dates of such transactions. Gains or losses arising from the translation of the financial statements of the self-sustaining foreign operation are deferred in a "cumulative translation account" in unitholders' equity. The cumulative translation account arises substantially from capital assets of the subsidiary located in Argentina.

Foreign monetary assets and liabilities of the Canadian operations and integrated foreign subsidiaries have been translated into Canadian dollars using the rate of exchange in effect at the balance sheet date and foreign non-monetary balances are translated at historical exchange rates. Exchange gains or losses arising from translation of these foreign monetary balances are reflected in the current period's earnings. Revenues and expenses are translated at rates in effect at the time of the transactions.



## Clearwater Seafoods Limited Partnership

### Notes to Consolidated Financial Statements

#### (h) Derivative financial instruments

Forward exchange contracts and interest rate swaps are used by Clearwater in the management of its foreign currency and interest rate exposures. Clearwater formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific forecasted transactions. Clearwater also formally assesses on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Japanese Yen and European Euro denominated sales are recognized in the consolidated financial statements when the related transaction occurs.

Clearwater writes foreign currency options. These securities, which according to Generally Accepted Accounting Principles, do not act as a fully effective hedge, and which mature over a short period of time, are stated at estimated quoted market prices. Realized and unrealized gains and losses on these securities are included in earnings. At expiry

of these contracts Clearwater will either have no obligation or will be called to deliver foreign currency at a rate management deemed acceptable upon entering into these contracts.

#### (i) Income taxes

Income taxes are accounted for by the asset and liability method of tax allocation. Under this method, future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities based on income tax rates and income tax laws that are expected to apply in the periods in which the differences are expected to affect income. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

#### (j) Use of estimates

The preparation of the financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that Clearwater may undertake in the future.

## Note 3 – OTHER LONG-TERM ASSETS

DECEMBER 31	2003	2002
Assets held for resale	\$ 3,715	\$ –
Investment in joint venture in excess of proportionate share of net assets consolidated	5,949	5,133
Deferred financing cost (net of accumulated amortization of \$844,000 (2002 – \$212,000))	2,569	804
Mortgage receivable	2,395	–
Future tax asset	1,615	–
Other	2,257	1,027
Advances to minority owner of subsidiary located in Argentina	–	3,302
	<b>\$ 18,500</b>	<b>\$ 10,266</b>

## Note 4 – CAPITAL ASSETS

DECEMBER 31	2003			2002
	Cost	Accumulated Depreciation	Net	Net
Land and land improvements	\$ 2,873	\$ 620	\$ 2,253	\$ 2,281
Buildings and wharves	60,000	38,163	21,837	24,541
Equipment	69,884	50,321	19,563	20,485
Vessels	158,197	64,529	93,668	83,972
Construction in progress	3,052	—	3,052	9,516
	\$ 294,006	\$ 153,633	\$ 140,373	\$ 140,795
Less: Deferred government assistance			(13,624)	(16,293)
			\$ 126,749	\$ 124,502

## Note 5 – LICENCES

DECEMBER 31			2003	2002
	Gross Carrying Amount	Accumulated Amortization	Net	Net
Licences				
Indefinite lives	\$ 126,416	\$ 19,826	\$ 106,590	\$ 39,826
Finite lives	2,500	647	1,853	1,979
	\$ 128,916	\$ 20,473	\$ 108,443	\$ 41,805

The aggregate amortization expense for the period ended December 31, 2003 of \$125,000 (period from July 30, 2002 to December 31, 2002 – \$52,000) is included in depreciation and amortization expense.

## Note 6 – LONG-TERM DEBT

DECEMBER 31	2003	2002
Notes payable (a)		
Canadian	\$ 63,000	\$ –
United States dollars	19,448	–
Term credit facility (b)		
Canadian	8,797	50,585
Euros	9,372	–
YEN	10,299	20,940
Marine mortgage, due in 2010 (c)		
Canadian	10,084	–
Danish Kroner	4,444	–
YEN	3,108	–
Marine mortgage, due in 2017 (d)		
Canadian	3,809	5,171
Danish Kroner	2,736	3,084
YEN	2,159	2,623
Term loan, due in 2091 (e)	3,500	3,500
Marine mortgage	–	20,716
Other loans	5,046	4,150
	145,802	110,769
Less current portion	3,515	2,794
	\$ 142,287	\$ 107,975

The notes are secured by mortgages and charges on all of the present and future property and assets of Clearwater Seafoods Limited Partnership and certain of its wholly owned subsidiaries, the interests of Clearwater Seafoods Income Fund in Clearwater Seafoods Holdings Trust and all the issued shares of CS ManPar Inc., the general partner of Clearwater. The security arrangement is guaranteed by an inter-creditor agreement with the banking syndicate members participating in the term credit facility disclosed in section (b) of this note.

(b) Term credit facility, maturing in May 2005. In May 2004 the banking syndicate at the request of Clearwater may extend the credit for an additional two years until May 2006. The balance outstanding as at December 31, 2003 was CDN \$8,797,000 (2002 – \$50,585,000), YEN 852,000,000 (2002 – 1,583,817,000) and Euros 5,763,000 (2002 – Nil). The facility bears interest at rates ranging from prime plus 0.5 – 1.25% and Libor plus 1.5 – 2.25% and has no scheduled repayments. The facility is secured by mortgages and charges on all of the present and future property and assets of Clearwater and of certain of its wholly-owned subsidiaries, the interests of Clearwater Seafoods Income Fund in Clearwater Seafoods Holdings Trust, the interests of Clearwater Seafoods Holdings Trust in Clearwater and all the issued shares of CS ManPar Inc., and is subject to the maintenance of certain financial covenants. As part of the master netting arrangement, bank account balances associated with the facility are netted with the term credit facility balance.

(c) Marine mortgage in the principal amount of CDN \$10,084,000, DKK 20,338,000 and YEN 257,127,000 bearing interest at Libor plus 1.5%. Principal payments are required in 14 semi-annual repayments in the currencies in which the loan was drawn. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.

**(a) Notes payable, Senior secured notes issued in three series:**

\$43,000,000 Canadian Series A Notes bearing interest at 6.4% payable semi-annually, maturing December 8, 2008.

\$15,000,000 U.S. dollars Series B notes bearing interest at 5.65% payable semi-annually, maturing December 8, 2008.

\$20,000,000 Canadian Series C Notes bearing interest at 7.23% payable semi-annually, maturing December 8, 2013.

## Clearwater Seafoods Limited Partnership

### Notes to Consolidated Financial Statements

(d) Marine mortgage payable in the principal amount of CDN \$7,617,000 (2002 – \$10,341,000), DKK 25,045,000 (2002 – DKK 27,828,000) and YEN 357,206,000 (2002 – 396,895,000) bearing interest at UNIBOR plus 1% payable semi-annually, 50% of which represents Clearwater's proportionate share. Principal payments are required annually with CDN \$517,000, DKK 1,391,000 and YEN 19,845,000 due in 2004 – 2007, CDN \$776,000, DKK 2,087,000 and YEN 29,767,000 due in 2008 – 2014, CDN \$120,000 due in 2015, DKK 2,087,000 and YEN 29,767,000 due in 2015 – 2016 and DKK 696,000 and YEN 9,923,000 due in 2017, 50% of which represents Clearwater's proportionate share. The loan matures in 2017 and is secured by a first mortgage over the related vessel and covenants concerning certain fishing licences.

(e) Term loan, payable in 2091. In connection with this loan Clearwater makes a royalty payment of \$350,000 per annum in lieu of interest.

(f) As at December 31, 2003 Clearwater has entered into long-term interest rate swap arrangements to hedge its exposure against changes in interest rates as follows:

Principal	Rate	Maturity
CDN \$20,000,000	4.65%	December 4, 2008
CDN \$5,000,000	3.78%	June 16, 2008

Based on the above Clearwater pays (or receives) the difference between the above rates and three month Bankers Acceptance rate.

Clearwater's debt facilities contain various covenants. Clearwater is in compliance with all debt covenants at December 31, 2003.

Principal repayments required in each of the next five years assuming renewal of the term credit facility on similar terms are approximately as follows:

2004	\$ 3,515
2005	31,954
2006	3,420
2007	3,413
2008	65,858

The estimated fair value of Clearwater's long-term debt at December 31, 2003 was not materially different from its carrying value. Fair value has been estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to Clearwater for loans with similar terms and maturities.

## Note 7 – INCOME TAXES

### (a) Future tax liability

The income tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities as at December 31 are presented below:

	2003	2002
Future income tax asset		
Loss carry-forwards and future deductible expenses of foreign subsidiaries	\$ 1,615	\$ 5,230
Less valuation allowance	–	(5,230)
	<b>1,615</b>	<b>–</b>
Future income tax liabilities		
Licences	10,136	7,087
Capital assets	2,868	2,632
	<b>\$ 13,004</b>	<b>\$ 9,719</b>

### (b) Income tax expense

The components of the income tax expense are as follows:

	Year Ended December 31 2003	Period from July 30 to December 31 2002
Current	\$ 4,079	\$ 2,697
Future (recovery)	(1,741)	98
	<b>\$ 2,338</b>	<b>\$ 2,795</b>



The provision for income taxes in the consolidated statement of earnings represents an effective tax rate different from the Canadian statutory rate of 40.1% (2002 – 42.1%). The differences are as follows:

	Year Ended December 31 2003		Period from July 30 to December 31 2002	
	Amount	%	Amount	%
Income tax expense computed at statutory rates	\$ 26,961	40.1	\$ 14,375	42.1
Income of the partnership distributed directly to unitholders	(17,435)	(25.9)	(8,094)	(23.7)
Income of foreign subsidiary not subject to tax	(2,056)	(3.1)	(2,461)	(7.2)
Previously unrecognized losses of foreign subsidiaries	(4,361)	(6.5)	(1,548)	(4.6)
Other tax differences	(771)	(1.1)	523	1.5
	\$ 2,338	3.5	\$ 2,795	8.1

## Note 8 – PARTNERSHIP UNITS

Clearwater is authorized to issue an unlimited number of Class A limited partnership units, an unlimited number of Class B general partnership units, issuable in series, and an unlimited number of Class Y general partnership units, issuable in series.

Each unit (other than the Class Y units) shall entitle the holder thereof to one (1) vote in respect thereof, except in certain situations as described pursuant to the Limited Partnership Agreement governing Clearwater.

Each issued Class B unit is accompanied by a Special Trust Unit issued by the Fund entitling the holder to receive notice of, to attend and to vote at meetings of unitholders of the Fund.

Subject to the provisions of applicable securities laws, units in Clearwater are transferable, except that, without the prior consent of CSHT, CFFI is not permitted to transfer any Class B units prior to December 31, 2003 to any person other than an Affiliate or a Permitted Lender or the transferee thereof.

The right of the holders of Class B units to receive distributions from Clearwater is subordinated to the rights of holders of Class A units until the date on which both (i) distributions paid in respect of

a fiscal year on the Class A units and the Class B units total at least \$1.15 per unit; and (ii) Clearwater has earned Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and minority interest) of at least \$1.38 per unit for the same fiscal year; provided that in any event the earliest date in respect of which subordination shall end in respect of 60% of the Class B units shall be December 31, 2003 and in respect of the remaining 40%, December 31, 2005. These tests were met for the year ended December 31, 2003 and as a result 40% of the Class B units, or 9,352,487 units, are subordinated as at January 1, 2004. Class B units that are subject to such subordination are entitled to receive distributions from Clearwater only quarterly, rather than monthly, and only after distributions of at least \$0.0958 per unit in respect of each month during such quarter have first been paid to the holders of Class A units and Class B units that at the time are not subject to such subordination.

Class B units that are no longer subject to subordination may at any time thereafter at the option of the holder thereof in effect be exchanged for units of the Fund whereupon CSHT will be issued Class A units and the Class B units that were so exchanged will be cancelled.

	Class A Units	Class B Units	\$
Issuance of Class A units, July 2002	21,170,435	–	\$ 196,578
Issuance of Class B units, July 2002	–	25,498,260	–
Less: Excess of capital contributions over book values of assets, July 2002	–	–	(87,195)
Issuance of Class A units, August, 2002	2,117,043	–	19,953
Redemption of Class B units, August, 2002	–	(2,117,043)	(19,953)
Issuance of Class A units, December, 2002	1,271,186	–	12,750
Balance December 31, 2002	24,558,664	23,381,217	122,133
Issuance of Class A Units, May 2003	4,000,000	–	39,757
Issuance of Class A Units, September 2003	848,962	–	10,361
	29,407,626	23,381,217	\$ 172,251

## Clearwater Seafoods Limited Partnership

### Notes to Consolidated Financial Statements

On July 30, 2002 Clearwater issued 21,170,435 Class A limited partnership units at \$10 per unit to CSHT, the sole beneficiary of which is the Fund, for net proceeds of \$196,578,000, after deducting expenses of the offering of \$15,126,000 and as part of the acquisition of the seafood business of CFFI, issued 25,498,260 Class B general partnership units. On August 29, 2002 Clearwater issued an additional 2,117,043 Class A units at \$10 per unit for net proceeds of \$19,953,000, after deducting expenses of \$1,217,000, and used the funds to redeem 2,117,043 Class B units. On December 27, 2002 Clearwater issued 1,271,186 Class A limited partnership units to CSHT for \$10.03 for net proceeds of \$12,750,000.

As CFFI controlled the business both before and after the above-noted transactions, the acquisition has been accounted for using the book values of the assets and liabilities as recorded by CFFI.

The excess of capital contributions over book values of assets reflects the book values of the net assets of CFFI's seafood business at the date of acquisition of \$180,533,000 less the cash portion of the consideration paid by Clearwater therefore of \$267,728,000.

In May 2003 as part of the financing for the High Liner Purchase Agreement Clearwater issued to the Fund 4,000,000 partnership units for net proceeds of \$39.8 million (gross proceeds of \$42.4 million less fees and expenses of the offering, including underwriting fees, of \$2.6 million).

In September 2003 as part of the financing for the Glacier Pesquera S.A. interest purchase, 848,962 units were issued to the Fund at an issuance price of \$12.28 per unit.

As at December 31, 2003 there were in total 52,788,843 units outstanding (December 31, 2002 – 47,939,881).

In determining the earnings per unit the weighted average number of units outstanding was calculated assuming that units issued in May and September of 2003 were outstanding for the full month as those units received the full distribution for those months.

## Note 9 – DISTRIBUTIONS

Clearwater's distribution policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices. Clearwater intends to make monthly cash distributions of its net monthly cash receipts, less estimated amounts required for the payment of expenses and capital expenditures as determined appropriate.

Cash distributions will be payable monthly to the unsubordinated unitholders of record on the last business day of each month and will be paid no later than the 15<sup>th</sup> day of the following month or, if such day is not a business day, not later than the next business day.

During the year ended December 31, 2003, Clearwater declared the following cash distributions:

Declaration Date	Record Date	Payment Date	Distribution Per Unit	Total
<b>First quarter</b>				
To the Fund, as holders of CSLP Class A partnership units				
January 20, 2003	January 31, 2003	February 17, 2003	\$ 0.0958	\$ 2,352
February 17, 2003	February 28, 2003	March 17, 2003	0.0958	2,352
March 17, 2003	March 31, 2003	April 15, 2003	0.0958	2,352
				7,056
To CFFI, as holders of CSLP Class B partnership units				
March 17, 2003	March 31, 2003	April 15, 2003	0.2874	6,722
				13,778
<b>Second quarter</b>				
To the Fund, as holders of CSLP Class A partnership units				
April 17, 2003	April 30, 2003	May 15, 2003	\$ 0.0958	\$ 2,353
May 20, 2003	May 30, 2003	June 13, 2003	0.0958	2,736
June 18, 2003	June 30, 2003	July 15, 2003	0.0958	2,736
				7,825
To CFFI, as holders of CSLP Class B partnership units				
June 18, 2003	June 30, 2003	July 15, 2003	0.2874	6,720
				14,545

Declaration Date	Record Date	Payment Date	Distribution Per Unit	Total
<b>Third quarter</b>				
To the Fund, as holders of CSLP Class A partnership units				
July 17, 2003	July 31, 2003	August 15, 2003	\$ 0.0958	\$ 2,736
August 14, 2003	August 29, 2003	September 15, 2003	0.0958	2,736
September 19, 2003	September 30, 2003	October 15, 2003	0.0958	2,817
				8,289
To CFFI, as holders of CSLP Class B partnership units				
September 19, 2003	September 30, 2003	October 15, 2003	0.2874	6,719
				15,008
<b>Fourth quarter</b>				
To the Fund, as holders of CSLP Class A partnership units				
October 20, 2003	October 31, 2003	November 14, 2003	\$ 0.0958	\$ 2,819
November 17, 2003	November 28, 2003	December 15, 2003	0.0958	2,819
December 12, 2003	December 31, 2003	January 15, 2004	0.0958	2,817
				8,453
To CFFI, as holders of CSLP Class B partnership units				
December 12, 2003	December 31, 2003	February 23, 2004	0.2874	6,718
				15,171
				\$ 58,502

Since inception Clearwater has distributed \$80,978,000.

## Note 10 – REDUCTION IN FOREIGN CURRENCY TRANSLATION ACCOUNT

The reduction in the foreign currency translation account is a non-cash adjustment, which relates to the reduction of Clearwater's net investment in an 80% (70% prior to September 2003) owned subsidiary in Argentina. The cumulative translation account largely arose because of the significant devaluation of the peso in Argentina versus the Canadian dollar in 2001. It is Clearwater's desire to continue to manage its exposure to Argentina pesos by repatriating its capital as quickly as possible while not impairing local operations. Dividends declared have resulted in a reduction in Clearwater's net

investment in that subsidiary and accordingly, a proportionate share of the cumulative translation account has been recognized in earnings. Clearwater anticipates that continued repayments of its advances to and the payment of dividends from the subsidiary in Argentina may result in additional reduction of the cumulative translation account in the future. The cumulative translation account is included in the Unitholder's Equity section of the balance sheet and the remaining balance at December 31, 2003 is \$18.4 million (December 31, 2002 – \$19.8 million).

## Note 11 – COMMITMENTS

Clearwater is committed directly, and through its proportionate share of its joint ventures, to various royalty and lease payments aggregating \$30,185,000 as of December 31, 2003 requiring approximate minimum annual payments in each of the next five years as follows: 2004 – \$4,203,000, 2005 – \$3,860,000, 2006 – \$2,857,000, 2007 – \$2,741,000 and 2008 – \$2,592,000.

Included in commitments are amounts to be paid to a company controlled by a relative of an officer of Clearwater over a period of years ending in 2007 for vehicle leases which aggregate approximately \$297,000.



# Clearwater Seafoods Limited Partnership

## Notes to Consolidated Financial Statements

### Note 12 – JOINT VENTURES

Clearwater has a 50% interest in three joint ventures. The financial statements include Clearwater's proportionate share of the assets, liabilities, sales and expenses of such joint ventures, the material elements of which are as follows:

*(a) Proportionate share of assets and liabilities as at December 31*

	2003	2002
Current assets	\$ 6,621	\$ 9,582
Capital and other long-term assets	23,293	24,984
Current liabilities	8,538	5,339
Long-term liabilities	11,644	16,279

*(b) Proportionate share of sales, expense and earnings before taxes*

The following is a summary of the transactions included in the financial statements for the following periods:

	Year Ended December 31 2003	Period from July 30 to December 31 2002
Sales	\$ 17,074	\$ 9,957
Expenses	15,608	7,065
Earnings before taxes	1,466	2,892

*(c) Balances, transactions and guarantees with joint venture partners*

Clearwater receives and provides services to the joint ventures at amounts agreed between the parties. The following is a summary of the balances included in the financial statements as at December 31:

	2003	2002
Accounts receivable from joint venture partner	\$ 512	\$ 570
Due from joint venture	5,949	5,133
Accounts payable to joint venture partner	254	8
Due to joint venture partner	1,995	1,995

The following is a summary of the transactions included in the financial statements for the following periods:

	Year Ended December 31 2003	Period from July 30 to December 31 2002
Commissions charged by joint ventures	\$ 2,096	\$ 1,818
Interest and commissions charged to joint ventures	777	215

As at December 31, 2003, Clearwater was contingently liable for the obligations of the joint venture partners in the amount of \$11,500,000 (2002 – \$14,781,000). However, the joint venture partners share of the assets is available for the purpose of satisfying such obligations.

## Note 13 – SEGMENTED INFORMATION

### (a) General information

Clearwater operates primarily within one industry, that being the harvesting, procurement, processing, and sale of seafood with no separately reportable business segments. The products are sold primarily to customers in the United States, Asia, Europe, and Canada.

### (b) Net sales to customers by product category

	Year Ended December 31 2003	Period from July 30 to December 31 2002
Lobster	\$ 76,065	\$ 30,223
Sea scallop	68,159	35,408
Clam	57,487	26,480
Argentine scallop	33,393	16,338
Groundfish	37,072	14,899
Cold water shrimp	30,769	18,406
Jonah crab	10,048	5,547
Other	24,010	8,705
Hedging program	12,734	–
	<b>\$ 349,737</b>	<b>\$ 156,006</b>

### (c) Geographic information

	Year Ended December 31 2003	Period from July 30 to December 31 2002
Sales		
United States	\$ 128,220	\$ 60,459
Asia	68,840	35,702
Europe	86,088	41,687
Canada	52,863	18,158
Other, including hedging program	13,726	–
	<b>\$ 349,737</b>	<b>\$ 156,006</b>

DECEMBER 31	2003	2002
Capital assets, licences and goodwill		
Canada	\$ 222,722	\$ 166,922
Argentina	20,193	6,900
Other	1,249	1,457
	<b>\$ 244,164</b>	<b>\$ 175,279</b>

## Note 14 – FINANCIAL INSTRUMENTS

### (a) Hedging

Forward exchange contracts are used by Clearwater in the management of its foreign currency exposures. Clearwater manages its exposure to fluctuations in exchange rates on United States dollar and Japanese Yen denominated revenues using forward exchange contracts.

At December 31 Clearwater had outstanding contracts as follows (as converted to Canadian dollars at contracted rates):

	2003	2002
Sold United States dollars forward for Canadian dollars for the period 12 months subsequent to December 31 at an average rate of 1.4423 and a nominal value of U.S. \$55,000,000 (2002 – average rate of 1.5635 and a nominal value of U.S. \$62,000,000)	\$ 79,329	\$ 96,944
Sold Japanese Yen forward for Canadian dollars for the period 12 months subsequent to December 31 at an average rate of 0.01232 and a nominal value of 1,000,000,000 Yen (2002 – average rate of 0.01274 and a nominal value of 1,000,000,000 Yen)	12,316	12,743
Sold European Euros forward for Canadian dollars for the period 12 months subsequent to December 31 at an average rate of 1.619 and a nominal value of 6,600,000 Euros (2002 – nil)	10,687	–

Although Clearwater has no intention of settling these contracts, at December 31, 2003 Clearwater would have, if it settled these contracts, received a payment of \$5,913,000 (December 31, 2002 – would have been required to make a payment of \$1,851,000).

Clearwater accounts for these contracts as fully effective hedges and no amount is included in the accounts until such time as the maturity of the hedge.

## Clearwater Seafoods Limited Partnership

### Notes to Consolidated Financial Statements

Clearwater has also entered into foreign currency options and expandable forward contracts as at December 31 with estimated quoted market values as follows:

	2003	2002
Sell 150,000,000 United States dollars for Canadian dollars at prices ranging from 1.310 to 1.405 at dates ranging from March 1, 2004 to December 9, 2004. These contracts contain knock-in provisions ranging from 1.4000 to 1.5110 which limit any exposure to having to sell the U.S. dollars until the Canadian dollar is weaker than the knock-in level chosen (2002 – Sell 88,000,000 United States dollars for Canadian dollars at prices ranging from 1.5375 to 1.590 at dates ranging from January 3, 2003 to June 5, 2003)	\$ (2,725)	\$ (2,479)
Sell forward 80,000,000 United States dollars for Canadian dollars at prices ranging from 1.3755 to 1.4438 at dates ranging from June 25, 2004 to August 15, 2005 (2002 – nil). If the rate of exchange at maturity of the contract is greater than these prices the purchaser has the right to require Clearwater to sell an additional 80,000,000 at the same rates which will effectively increase the contract to 160,000,000 at the above rates	7,329	–
Sell 3,000,000,000 Japanese Yen for Canadian dollars at prices ranging from 0.01220 to 0.01235 at dates ranging from July 12, 2004 to October 27, 2004. These contracts contain knock-in provisions ranging from 0.01294 to 0.01413 which limit any exposure to market loss until the Canadian dollar is weaker than the knock-in level chosen (2002 – Sell 4,000,000,000 Japanese Yen for Canadian dollars at prices ranging from 0.01238 to 0.01313 at dates ranging from January 22, 2003 to October 3, 2003)	(915)	(2,484)
	\$ 3,689	\$ (4,963)

The above market values represent the potential net asset (liability) in the event the contracts were closed. The asset recorded in 2003 is included in prepaids and other current assets and the liability recorded in 2002 is included in accounts payable and accrued liabilities.

#### (b) Credit risk

Clearwater is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties as Clearwater only deals with highly-rated financial institutions.

Clearwater has significant accounts receivable from customers operating in the United States, Europe and Asia. Clearwater has a policy of utilizing a combination of credit reporting agencies, credit insurance, letters of credit and secured forms of payment to mitigate customer specific credit risk and country specific credit risk.

#### (c) Fair values

As indicated in the note entitled “Long-Term Debt” Clearwater uses interest rate swaps to hedge its exposures to changes in interest rates. While Clearwater has no intention of settling these hedges at December 31, 2003, if Clearwater had settled these contracts it would have been required to pay \$487,000.

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximate fair value.



## Notes 15 – RELATED PARTY TRANSACTIONS

In addition to the transactions and balances associated with joint venture parties disclosed in note 12, during the year ended December 31, 2003 Clearwater was charged \$252,000 by CFFI for use of a corporate airplane (Period from July 30, 2002 to December 31, 2002 – \$105,000), charged CFFI \$236,000 for rent and other services (Period from July 30, 2002 to December 31, 2002 – \$62,000), had an amount receivable from CFFI of \$21,000 (December 31, 2002 due to CFFI – \$2,541,000), and a distribution payable to CFFI of \$6,718,000 relating to the fourth quarter distribution on subordinated units (December 31, 2002 – \$6,720,000).

Clearwater was charged approximately \$209,000 for vehicle leases in 2003 (Period from July 30, 2002 to December 31, 2002 – \$82,000) and approximately \$78,000 for other services (Period from July 30, 2002 to December 31, 2002 – \$65,000) by companies controlled by a relative of an officer of Clearwater.

These transactions are in the normal course of operations and have been recorded at fair market value.

Clearwater had an amount due from a minority owner in a subsidiary located in Argentina of \$nil (December 31, 2002 – \$3,302,000).

In addition, CFFI provides certain treasury functions at no charge.

## Note 16 – ACQUISITIONS

### (a) 2003

In May, 2003 Clearwater completed the High Liner Purchase Agreement pursuant to which Clearwater acquired certain scallop and groundfish licences, quotas and other assets from High Liner Foods Incorporated and extended three loans to unrelated entities that purchased certain of High Liner's assets previously used in connection with such licences and quotas. Although it does not own these unrelated entities, Clearwater has consolidated the results of the entities in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline 15 – Consolidation of Variable Interest Entities, due to its level of influence and economic interest as a result of the related credit agreements.

In September, 2003 Clearwater completed the acquisition of a 10% interest in its Argentine subsidiary, Glaciar Pesquera S.A. bringing Clearwater's interest in Glaciar to 80% for \$10.4 million. The acquisition has been accounted for using the purchase method and the resulting adjustments to minority interest have been included in Clearwater's consolidated statements from the date of acquisition. The excess of the purchase price over the proportionate share of net assets, being \$14.6 million, has been allocated to licences which have unlimited lives.

### (b) 2002

On December 27, 2002 Clearwater acquired the remaining 45% interest in one of its subsidiaries – Deep Sea Clam Company Incorporated for cash consideration of \$16,875,000. The acquisition has been accounted for using the purchase method and the resulting adjustments to minority interest have been included in Clearwater's consolidated statements from the date of acquisition. The excess of the purchase price over the proportionate share of net assets, being \$11,280,000, has been allocated to a licence which has an unlimited life.

## Quarterly and Unit Information

The financial information disclosed below was derived from the unaudited interim earnings statements of Clearwater for periods from July 30, 2002 to December 31, 2003. The financial information from January 1, 2002 until July 29, 2002 was derived from the unaudited interim earnings statements of the Business as operated by Clearwater Fine Foods Incorporated ("CFFI"). The results prior to July 30, 2002 do not reflect the current capital structure, which would have impacted bank interest, interest on long-term debt, income taxes and minority interest. The third quarter of 2002 was derived by adding the results for the Business for the month of July 2002 to the results of Clearwater for the two months ended September 28, 2002.

### Clearwater Seafoods Limited Partnership

(\$000's EXCEPT PER UNIT AMOUNTS)	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	101,565	96,514	76,579	75,079	96,334	90,037	68,502	65,055
Net earnings	23,754	11,569	16,913	9,881	21,235	3,482	1,939	2,877
Distributable cash	22,028	19,447	12,008	8,027	21,863	—	—	—
Distributions	15,171	15,009	14,545	13,778	13,534	—	—	—
Per unit data								
Basic and diluted								
net earnings	0.45	0.22	0.33	0.21	0.45	—	—	—
Distributable cash	0.42	0.37	0.24	0.17	0.47	—	—	—
Distributions	0.29	0.29	0.29	0.29	0.29	—	—	—

### Trading information, Clearwater Seafoods Income Fund, symbol CLR.UN, IPO July 30, 2002

	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of units (board lots)								
High	12.41	13.15	12.55	11.28	10.75	10.71	—	—
Low	10.10	11.07	10.94	10.19	9.55	9.85	—	—
Close	12.00	11.78	12.35	11.15	10.36	10.26	—	—
Trading volumes (000's)								
Total	5,303	8,607	3,925	3,445	6,739	9,909	—	—
Average daily	83	137	60	54	102	225	—	—
Units outstanding at end of quarter								
Units	29,407,626	29,407,626	28,558,664	24,558,664	24,558,664	23,287,478	—	—
Special	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	23,381,217	—	—
Total	52,788,843	52,788,843	51,939,881	47,939,881	47,939,881	46,668,695	—	—

## Selected Financial Information

### Cautionary note regarding historical figures

Please note that the combined pro-forma 2002 earnings reflect the unaudited interim earnings of Clearwater Fine Foods Fishing Business ("CFFFB") for the seven month period from January 1, 2002 to July 29, 2002 and the audited statement of earnings of Clearwater Seafoods Limited Partnership ("CSLP") for the five month period from July 30, 2002 to December 31, 2002.

The earnings information for 2001, 2000 and 1999 reflect the earnings of the business as operated by Clearwater Fine Foods Incorporated. These statements of earnings which have been audited, were included in the Initial Public Offering Prospectus on page F-13.

The results prior to July 30, 2002 do not reflect the current capital structure and the acquisition of the minority interest in a subsidiary which would have impacted bank interest, interest on long-term debt, income taxes and minority interest.

	2003	Combined Pro-forma 2002	2001	2000	1999
	(Audited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Sales	\$ 349,737	\$ 319,928	\$ 290,117	\$ 286,076	\$ 259,782
Cost of goods sold	252,111	232,383	205,685	194,991	177,356
Gross profit	97,626	87,545	84,432	91,085	82,426
Gross profit %	27.9%	27.4%	29.1%	31.8%	31.7%
Administration and selling	34,579	29,412	27,425	26,877	25,699
Other income	(6,753)	(4,233)	(2,392)	(2,994)	(1,526)
Foreign exchange loss (income)	(21,443)	(179)	5,574	(3,731)	(8,196)
Bank interest and charges	921	2,445	3,475	3,794	3,961
Interest on long-term debt	6,138	13,072	12,403	9,488	8,750
Depreciation and amortization	15,540	14,003	17,040	15,702	13,857
Reduction in foreign currency translation account	1,443	0	0	0	0
	30,425	54,520	63,525	49,136	42,545
Earnings before the undernoted	67,201	33,025	20,907	41,949	39,881
Income taxes	2,338	2,036	11,437	17,475	13,847
Earnings before minority interest	64,863	30,989	9,470	24,474	26,034
Minority interest	2,746	1,456	899	403	616
Net earnings	\$ 62,117	\$ 29,533	\$ 8,571	\$ 24,071	\$ 25,418



## Corporate Governance

The Trustees of Clearwater Seafoods Income Fund, the Board of Directors of CS ManPar Inc. (the managing partner of Clearwater Seafoods Limited Partnership), and the management team of Clearwater are committed to a high standard of corporate governance. Effective corporate governance requires specified reporting structures and business processes, a strategic planning process, and a commitment to work according to these. We believe that sound corporate governance contributes to unitholder value and to trust and confidence in Clearwater.

The Board of Directors of CS ManPar Inc. is responsible under law for the stewardship of Clearwater Seafoods Limited Partnership, including the business affairs of Clearwater Seafoods Income Fund. To help execute this mandate, the Board has two standing committees, each consisting of only independent directors.

This Audit Committee is comprised of Jim Gogan (Chair), George Armoyn, and Hugh Smith. The Corporate Governance and Compensation Committee is comprised of Purdy Crawford (Chair), Tom Traves, and Jim Gogan.

The Trustees from time to time meet separately and, at other times, as part of the Board of Directors and committees thereof. The Trustees consider their major responsibility is to protect the interest of the unitholders, in particular the public unitholders in all respects. This can relate to monitoring distributions and the subordination of the exchangeable units, monitoring and approving, and otherwise, all non-arm's length transactions, etc.

The Toronto Stock Exchange has published guidelines for effective corporate governance. These guidelines are set out below, along with commentary as to Clearwater's conformity to them. On January 16, 2004 the Ontario Securities Commission published proposed policies with respect to corporate governance and the disclosure with respect to such proposed policies. The Corporate Governance and Compensation Committee does not anticipate any issues as a result of these proposed policies and is monitoring the status of these policies to ensure the disclosure standards are fully conformed to once these guidelines become effective.

References to the Clearwater Seafoods Income Fund, CS ManPar Inc and Clearwater Seafoods Limited Partnership are abbreviated below to the "Company."

### TSX Guidelines

### Clearwater Seafoods Corporate Governance Practices

1) The Board of Directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for a number of matters.

The mandate of the Board is to supervise the management of the Company and to act in the best interests of the Company. The Board acts in accordance with the Canadian Business Corporations Act, the Company's Declarations of Trusts and Limited Partnership Agreements, the Company's code of business conduct, conflict of interest policies, corporate disclosure policy and corporate governance policy including the related charters of the Board committees as well as other applicable laws. The Board approves all significant decisions that affect the Company and its subsidiaries before they are implemented. The Board supervises their implementation and reviews the results. Copies of the Company's code of business conduct, conflict of interest policies, corporate disclosure policy and corporate governance guidelines can be found on the Company's website at [www.clearwater.ca](http://www.clearwater.ca).

A) Adoption of a strategic planning process;

The Board believes that management is responsible for the development of individual business unit and overall corporate strategy. The role of the Board is to establish an agreed upon planning process, then review, question and validate, and ultimately approve, the strategies for Clearwater.

The Board receives presentations from management with respect to the long-term direction of Clearwater, strategic priorities, and performance. The Board reviews and analyzes these presentations to ensure that there is congruence between strategic plans, performance, and unitholder expectations.

B) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board directly and through the Audit Committee and the Corporate Governance and Compensation Committee, is responsible for understanding the principal risks associated with the Company's businesses and operations on an ongoing basis. The principal risks of the Company are those related to resource supply, food processing and product liability, customers, economic fluctuations, government regulations and the ongoing development of leaders. The Audit Committee meets regularly to review reports and discuss significant financial risk areas with management and the external auditors. The Board, through the Audit Committee, ensures that the Company adopts risk management policies.

## TSX Guidelines

## Clearwater Seafoods Corporate Governance Practices

c) succession planning, including the appointing, training, and monitoring senior management;

The Corporate Governance and Compensation Committee oversees Clearwater's compensation programs, practices, and the performance of senior management. The Board approves the CEO's corporate objectives and compensation. The Board also ensures that adequate provisions have been made for senior management training and succession. The Board considers as one of its most critical functions the selection of a Chief Executive Officer and senior management team that fits Clearwater's current culture, understands its business strategy and inspires others to follow their lead. The Board expects succession planning and management development to be a key ongoing process with a detailed annual report on these areas to be made to the Corporate Governance and Compensation Committee and to the full Board.

d) a corporate communications policy for the corporation; and,

The Board approves all the Company's major communications, including annual and quarterly reports, proxy circulars, annual information forms, financing documents and related press releases. The Company communicates through a number of channels including its web site. The Board approved the Company's disclosure policy, which covers the accurate and timely communication of all-important information. This policy is updated annually and includes procedures for communication with analysts, investors and the media.

e) the integrity of the corporation's internal control and management information systems.

The Board, through the Audit Committee examines the effectiveness of the Company's internal control processes and management information systems. The Board consults with management of the Company to ensure the integrity of these systems.

2) The Board of Directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors (independent of management, free from conflict of interest).

The Company's Board of Directors currently consists of seven individuals, five of whom are unrelated.

3) Disclose whether or not each director is unrelated and explain.

Purdy Crawford – unrelated non-management  
James Gogan – unrelated non-management  
Thomas Traves – unrelated non-management  
George Armoyan – unrelated non-management  
Hugh Smith – unrelated non-management  
John Risley – related as he is a significant shareholder and non-executive chair  
Colin MacDonald – related as he is a significant shareholder and the CEO

*More information on each of the directors can be found in the Company's information circular prepared for the annual general meeting.*

The Corporate Governance and Compensation Committee reviews on an annual basis any relationships between outside directors and the Company, which might be construed in any way to compromise the designation of any director as being independent or unrelated to the Company. The objective of such review will be to determine the existence of any relationships, to ensure that the composition of the Board remains such that a significant majority of the directors are independent and unrelated and that where any relationships with the Company exist, the director is acting appropriately.

A director shall be considered independent if he or she: (1) is not currently employed by the Company, (2) has not been employed by Clearwater during at least the last three years, (3) has no significant commercial business, family or other relationships with the Company, either directly or through his or her employment or other affiliation with a firm or other organization that has such a relationship with Clearwater, that could interfere with his or her exercise of independence (A) of judgment and (B) from Clearwater and management, and (4) has not otherwise received significant remuneration from Clearwater in any capacity other than as a director during at least the last three years. This policy may be modified temporarily if, due to unforeseen circumstances, strict adherence would be detrimental to the responsibilities and performance of the Board.

## TSX Guidelines

## Clearwater Seafoods Corporate Governance Practice

4) The Board of Directors of every corporation should appoint a committee of independent directors with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.

5) Every Board of Directors should implement a process to be carried out by the Nominating Committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board, and individual directors.

6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the Board.

7) Every Board of Directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

8) The Board of Directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects responsibilities and risk involved in being an effective director.

The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders. The Corporate Governance and Compensation Committee has been given the responsibility of gathering the names of potential nominees, screening their qualifications against the current skill and experience needs of the Board and making recommendations in this regard to the full Board. All directors are encouraged to identify potential candidates. Additional direct input to the process is provided by the Chairman and the CEO. An invitation to stand as a nominee for election to the Board will normally be made to the candidate by the Board through the Chairman of the Corporate Governance and Compensation Committee in consultation with the Chairman and the CEO.

The Corporate Governance and Compensation Committee will review, as needed, the general and specific criteria applicable to candidates to be considered for nomination to the Board. The objective of this review will be to maintain the composition of the Board in a way which provides the best mix of skills and experience to guide the long-term strategy and ongoing businesses and operations of the Company. This review will take into account the desirability of maintaining a reasonable diversity of background, skills and experience and personal characteristics, including, but not otherwise limited to, age, gender and geographic location/residence, among the directors along with the key common characteristics required for effective Board participation.

Notwithstanding the above, as long as Clearwater Fine Foods Incorporated owns more than 45% of the units of the Fund on a fully diluted basis, it has the right to nominate the majority of the Board of Directors.

The Corporate Governance and Compensation Committee is responsible for making an annual assessment of the overall performance of the Board, Board committees, and of each individual director's contribution, and reporting on the results of that assessment. The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. It is expected that the result of such reviews will be to identify any areas where the directors and/or management believe that the Board could make a better collective contribution to overseeing the affairs of Clearwater and meeting its overall responsibilities.

New directors appointed to the Board are provided with an orientation and education program, which will include written information about the duties and obligations of directors, the businesses and operations of Clearwater, documents from recent Board meetings and opportunities for meeting and discussions with senior management and other directors. The details of the orientation of each new director are tailored to that director's individual needs and areas of interest.

The Board currently consists of seven directors. It is the general consensus of the Board that these numbers are large enough to provide a diversity of expertise and opinion, yet small enough to allow for efficient operation and decision-making. The Corporate Governance and Compensation Committee will make recommendations to the Board when it believes a change would be in the best interests of Clearwater.

The Corporate Governance and Compensation Committee reviews the compensation of outside directors at least annually. Inside directors are not compensated. The committee will make recommendations to the Board for consideration when it believes changes in compensation are warranted.

The Board has determined that ownership of the Clearwater units by directors represents one way of better aligning the interests of directors with those of the shareholders of Clearwater. In 2003 the Board approved a policy that requires independent directors to hold, over time, a minimum number of Clearwater's units.



## TSX Guidelines

## Clearwater Seafoods Corporate Governance Practice

9) Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors, although some Board committees, such as executive compensation, may include one or more inside directors.

The Board has appointed two committees: The Audit Committee and the Corporate Governance and Compensation Committee. All members of both committees are outside and unrelated.

The Audit Committee has three members including James Gogan, the chair, George Armoyan and Hugh Smith. This committees' responsibilities include:

- reviewing Clearwater's annual consolidated financial statements and quarterly financial statements before the Board approves them
- working with management and the auditors to develop the annual audit plan and reviews the auditor's recommendations on internal controls
- approving all non-audit work performed by the external auditors
- meeting with the auditors independently of management at least quarterly
- reviewing Clearwater's annual and long-term financial plans, proposals for major borrowings and the issuing of securities
- making recommendations to the Board with respect to financial strategies and policies
- financial risk management

The mandate of the Audit Committee can be found on Clearwater's website at [www.clearwater.ca](http://www.clearwater.ca).

The Corporate Governance and Compensation Committee has three members including Purdy Crawford, the chair, James Gogan and Tom Traves. This committee is responsible for developing and maintaining Clearwater's corporate governance and compensation practices, including:

- defining the structure and composition of the Board and Board committees
- defining the relationship, roles and authority of the Board and management
- identifying and recommending suitable director candidates
- setting director's compensation
- developing and recommending management compensation policies, programs and levels to the Board to make sure they are aligned with unitholders' interests and corporate performance
- disclosing Clearwater's approach to corporate governance and executive compensation
- developing performance objectives for the CEO and assessing the CEO's performance against them
- reviewing succession plans for senior officers

The mandate of the Corporate Governance and Compensation Committee can be found on Clearwater's website at [www.clearwater.ca](http://www.clearwater.ca).

10) Every Board of Directors should expressly assume responsibility for, or assign to a committee of directors the responsibility for, developing the company's approach to corporate governance issues. The committee would, amongst other things, be responsible for the corporation's responses to these governance guidelines.

The Corporate Governance and Compensation Committee is responsible for reviewing the overall governance principles for Clearwater, recommending any changes to these principles, and monitoring their disclosure. This committee monitors best practices among major Canadian companies to ensure that Clearwater continues to carry out high standards of corporate governance.

## TSX Guidelines

## Clearwater Seafoods Corporate Governance Practice

11) The Board of Directors, together with the CEO, should develop position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the Board should approve or develop the corporate objectives, which the CEO is responsible for meeting.

12) Every Board of Directors should have in place structures and procedures to ensure that the Board can function independently of management.

13) The Audit Committee of every Board of Directors should be composed only of outside directors. The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The Audit Committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so.

14) The Board of Directors should implement a system which enables an individual director to engage an outside advisor in appropriate circumstances, at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the Board.

The Corporate Governance and Compensation Committee is responsible for overall governance for Clearwater and has established clear sets of responsibilities for the Board as a whole, for its committee and for the CEOs. It also has done this for the CEO, with defined limits to his responsibilities.

The Corporate Governance and Compensation Committee conducts an annual review of the performance of the CEO as measured against objectives established mutually in the prior year by the committee and the CEO and reviewed by the Chairman of the committee with the full Board. The results of this annual review are communicated to the full Board, which will then make an evaluation of the overall performance of the CEO. This performance evaluation will be communicated to the CEO by the Chairman of the committee. The evaluation will also be used by the committee in its deliberations concerning the CEO's annual compensation. The Board has established limits on management's authority depending on the nature and size of the proposed transaction. These limits permit some flexibility within approved budgets but otherwise will not be exceeded without Board approval.

The full Board reviews and approves annual strategic and operating and financial objectives; management prepares these and the CEO is accountable for them.

The Corporate Governance and Compensation Committee is responsible for administering the Board's relationship with management and the CEO. The committee may convene meetings of the Board without management present. In addition, any member of the Board may call a meeting to be held without management present. Members of the Audit Committee meet directly with the Company's auditors at least quarterly without management present.

The Audit Committee consists only of unrelated directors and has direct access to external auditors. The committee has a defined mandate, which is described in the response to guideline number 9.

Individual outside directors or any group or committee of outside directors may, as appropriate, need the services of an outside advisor, at Company expense, to assist on matters involving their responsibilities as a Board member. Prior to engaging an outside advisor the director shall obtain the prior authorization of the Corporate Governance and Compensation Committee, in accordance with the charter of that committee. No outside advisors were engaged in 2003.

## Trustees and Directors



### Purdy Crawford

Chairman, Allstream Inc. (formerly AT&T Canada Inc.) and Counsel, Osler, Hoskin & Harcourt LLP. Mr. Crawford holds a Bachelor of Arts degree from Mount Allison University, a Bachelor of Laws from Dalhousie University, and a Master of Laws from Harvard University. He is a director of a number of companies, including Canadian National Railway, Maple Leaf Foods Inc., Emera Inc., Seamark Asset Management Limited and Foot Locker Inc. Mr. Crawford is an Officer of the Order of Canada and a Member of the Canadian Business Hall of Fame.



### James W. Gogan

President and director of High Street Investments Limited. Mr. Gogan recently retired as President and CEO of Empire Company Limited. He holds a Bachelor of Commerce degree from Dalhousie University. He has acted as a director of a number of companies, including Sobeys Inc., Atlantic Shopping Centres Limited, Barclays Bank (Canada), and currently is a Board member of Empire Company Limited, Seamark Asset Management, and Nova Scotia Business Inc. He is Chair, Finance Group and Building Committee on the Board of Governors, St. Francis Xavier University.



### Thomas D. Traves

President and Vice-Chancellor, Dalhousie University. Dr. Traves holds a Bachelors degree from the University of Manitoba and Masters and Doctorate degrees from York University. He was formerly Vice-President (Academic) at the University of New Brunswick. He has been involved with a number of Boards of Directors and is currently a member of the Life Sciences Development Association, Innovacorp, and the Greater Halifax Partnership.



### George S. Armoyan

President & CEO of Clarke Inc., a leading provider of Transportation and Logistics Solutions within North America. President of Geosam Investments Limited, founder of Kimberly-Lloyd Developments Limited and a member of the Board of Armco Capital Corporation, and was recently named the Chairman of Vaquero Energy Ltd. as well. George, together with family members, is the owner of a number of businesses primarily involved in real estate development and operations, hospitality and public company investments. George holds a Bachelor of Engineering (Civil) degree from The Technical University of Nova Scotia and a diploma in Engineering from Dalhousie University. George is enrolled in an Executive Presidents Program at Harvard Business School in Boston, Massachusetts.



### Hugh K. Smith

Vice President of the Municipal Group of Companies, which operate quarries and asphalt plants and is active in all major aspects of heavy construction in Atlantic Canada. Hugh provides counsel to Stewart McKelvey Stirling Scales, an Atlantic Canada law firm, and is Chairman of Clarke inc., a transportation company and Chairman of Mirror Nova Scotia Limited, which operates the solid waste landfill facility for the Halifax Regional Municipality. Hugh was admitted to the Nova Scotia Bar in 1969 and holds Bachelors of Commerce and Law degrees from Dalhousie University. Hugh is Chairman, Halifax Youth Foundation.



### John C. Risley

Chairman, co-founded Clearwater in 1976. Mr. Risley was Chief Executive Officer of Clearwater and continues to take an active day-to-day role in the business. He serves on a number of industry and community organizations, including as a Board member of FPI Limited, as a member of the Board of Governors of Dalhousie University, and as Chairman of the Canadian Youth Business Foundation. He was named as an Officer of the Order of Canada in 1999.



### Colin E. MacDonald

Chief Executive Officer, co-founded Clearwater in 1976 and has served as COO and Executive Vice President within Clearwater since that time. Mr. MacDonald has extensive experience in the seafood industry. He served as President, Canadian Lobster Producers Association and is a Founding Member, Lobster Science Centre. He is currently Vice Chair of the IWK Foundation. He holds a Bachelor of Science degree from Dalhousie University.



## Glossary of Terms

**CFIA** – means the Canadian Food Inspection Agency, the federal agency responsible for the regulation of food safety in Canada.

**DFO** – means the Department of Fisheries and Oceans (Canada), the federal regulatory agency that has jurisdiction over Canada's entire marine environment.

**Enterprise allocation** which is also sometimes referred to as a **quota** – means permission to catch a specified percentage of the total allowable catch of a particular species in a specific area that is allocated by the DFO to an offshore licence holder. The enterprise allocations of licence holders vary from one another. From year-to-year, the DFO may change the total allowable catch based on scientific advice but the enterprise allocation percentage allocated to an offshore licence holder generally remains the same unless a new licence is issued. New licences are rarely issued unless and until increases in the total allowable catch evidences significant and substantial growth. The enterprise allocation system promotes both greater efficiency in harvesting seafood and improved resource stewardship practices. Enterprise allocations can be transferred, traded and sold. The transferability of enterprise allocations has encouraged industry consolidation.

**Factory vessel** – means a vessel on which processing into a frozen, market-ready form takes place.

**FOB** – means freight on board.

**Groundfish** – means several fish species, including, cod, redfish, turbot and flounder.

**HACCP** – means Hazard Analysis Critical Control Point, which is an internationally recognized system for ensuring that food products are safe and wholesome to eat.

**Harvesting** – means the catching of seafood.

**Landing(s)** – means the weight, number or value of a species of seafood caught and delivered to a port.

**Licence or fishing licence** – means an instrument by which an applicable regulatory authority grants permission to a person or enterprise to harvest certain species of seafood, subject to the conditions attached to the licence.

**Shellfish** – means an aquatic invertebrate animal with a shell, such as sea scallop, lobster, Arctic surf clams, crab or cold water shrimp.

**Total allowable catch or TAC** – means the total amount of a particular species in a specific area that is allowed to be harvested by all licence holders. The total allowable catch for each species in each area is set by the applicable regulatory authority on an annual basis based on scientific advice.

## Corporate Information

### Trustees of Clearwater Seafoods Income Fund

#### Purdy Crawford

*Chairman, AT&T Canada Inc.*

*Counsel, Osler, Hoskin and Harcourt LLP*

#### James W. Gogan

*President, High Street Investments Limited*

#### Thomas D. Traves

*President and Vice-Chancellor,*

*Dalhousie University*

### Directors of CS ManPar Inc., Managing Partner of Clearwater Seafoods Limited Partnership

#### Purdy Crawford

*Chairman, AT&T Canada Inc.*

*Counsel, Osler, Hoskin and Harcourt LLP*

*Chairman, Corporate Governance and  
Compensation Committee*

#### James W. Gogan

*President, High Street Investments Limited*

*Chairman, Audit Committee*

#### Thomas D. Traves

*President and Vice-Chancellor,*

*Dalhousie University*

#### George S. Armoyan

*President and Chief Executive Officer,*

*Clarke Inc.*

#### Hugh K. Smith

*Vice-President, Municipal Group of  
Companies*

#### John C. Risley

*Chairman, CS ManPar Inc.*

#### Colin E. MacDonald

*Chief Executive Officer, CS ManPar Inc.*

### Officers of CS ManPar Inc.

#### John C. Risley

*Chairman*

#### Colin E. MacDonald

*Chief Executive Officer*

#### Eric R. Roe

*Chief Operating Officer*

#### J. Michael Magnus

*Vice-President, Marketing  
and Sales*

#### Michael D. Pittman

*Vice-President, Fleet*

#### Robert D. Wight

*Vice-President, Finance  
and Chief Financial Officer*

### Investor Relations

#### Tyrone D. Cotie, C.A.

*Director of Corporate Finance  
and Investor Relations*

*(902) 457-8181*

*tcotie@clearwater.ca*

### Auditors

KPMG LLP

Halifax, Nova Scotia

### Units Listed

Toronto Stock Exchange

Unit symbol: **CLR.UN**

### Transfer Agent

Computershare Trust Company of Canada

### Annual Meeting of Unitholders

Monday, May 17, 2004 at 10:30 a.m.

(Eastern Time)

Toronto Stock Exchange Conference Centre

The Exchange Tower, Street Level

130 King St. W., Toronto, Ontario, Canada



[www.clearwater.ca](http://www.clearwater.ca)

